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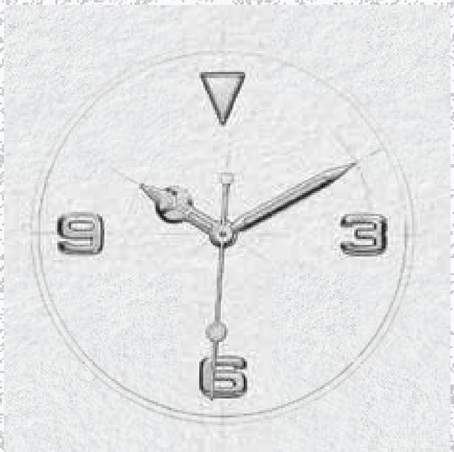

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from the editor

JANA MARAIS

Perhaps the best thing that could happen to SA's economy is for us to become Brazil 2.0 – a country in deep recession with a junk credit rating, an unemployment crisis, and corruption scandals that are threatening the job security of President Dilma Rousseff.

We tick most of the boxes to join Brazil already – so far, it's really been the comparatively good shape of our government finances that has kept further ratings downgrades at bay. In short, our crisis isn't big enough. Not yet, anyway.

It's not yet big enough for finance minister Nhlanhla Nene to get our public sector wage bill under control. Let's start with shutting some of the many new government departments that have proliferated under President Jacob Zuma's watch – Brazil's austerity measures saw it cutting 10 of its 39 ministries, freezing public sector pay hikes, and cutting 1 000 jobs.

The crisis isn't yet big enough to force government, along with its state-owned enterprises, to stop its wasteful expenditure. No, we still have cash to burn at SAA, PetroSA, Eskom, the SABC, the Post Office… – even though we had to bump up government debt from 26% of GDP in 2008 to 47% in March this year.

We'll need an additional R600bn in debt over the next three years, Nene warned in his mini budget (delivered while students were protesting over fees on Parliament's doorsteps), though debt as a proportion of GDP is expected to stabilise.

A political risk analyst whose clients are mainly Wall Street and City types describes the decline in investor interest in SA over the past few months as "staggering". Yet foreign investors' taps have not yet been shut completely.

Perhaps, if we become Brazil 2.0 – a deep recession, very little foreign portfolio flows to prop up our currency, plummeting stocks, rising interest rates, even higher unemployment, and an electorate baying for blood – perhaps then the crisis will get big enough.

Perhaps then we'll start listening to what South Africans are trying to say at protests from university campuses and mines to townships and the Union Buildings, and start with the painful restructuring that is needed to fix our country. ■

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By Johan Fourie

SA ECONOMY

What determines South Africans' inflation expectations?

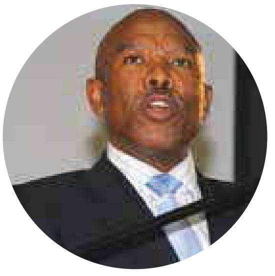
Our perceptions about expected inflation have important consequences. They influence how we (or the trade unions we belong to) negotiate wages, our willingness to buy a house, and businesses' decisions to invest or not.

Inflation determines how many goods and services we can purchase with our current salary. Inflation expectations, however, determine whether future goods and services will be more, or less, affordable and therefore how we will behave today. If we believe inflation will be 10% next year and our salary increase only 5% (leading to a decline in our purchasing power), we might be less likely to buy that new car.

Measuring inflation expectations and determining what influences peoples' inflation expectations is therefore important to policymakers, notably, in South Africa's case, the South African Reserve Bank (Sarb).

Controlling inflation expectations is the first step to controlling inflation. If there is a shock to a particular price (such as oil), the macroeconomic consequences will be limited if South Africans believe that Governor Lesetja Kganyago and his Monetary Policy Committee (MPC) will bring inflation under control. If the response of the rest of the economy to the oil shock is muted, the process of inflation won't get under way.

What do we know about the determinants of inflation expectations? Not much, it turns out. It's quite difficult to measure inflation expectations. Surveys are often used, but usually of economists in the financial sector; they don't necessarily gauge the perceptions of the proverbial man in the street.



Lesetja Kganyago
Governor of the South African Reserve Bank

Adjusting expectations

A new paper published in *Economic Modelling* by Stellenbosch University economist Monique Reid begins to shed light on the topic.

She used 10 years of data from an inflation expectations survey by the Bureau of Economic Research to investigate how quickly the message from the Sarb trickles down to the general public. Information is 'sticky', Reid finds, and for some groups more than others: financial analysts, for example, adjust their expectations quicker and more accurately than businesses and labour unions.

This is because financial analysts have the ability and skill to use and understand other sources of information (like MPC announcements or international economic indicators) than simply the past inflation rate.

A recent paper by US economists, Ulrike Malmendier and Stefan Nagel, in the *The Quarterly Journal of Economics*, shows that even amongst the general public there is significant variation in inflation expectations.

Behavioural economists repeatedly demonstrate that people have biases that they are often unaware of.

They find that own life experiences determine how individuals form expectations of the future.

How would this work?

Say inflation over the past five years has been lower than the average for the past three decades. Using 57 years of data of US inflation expectations, they show that a young person who entered the job market five years ago would be more likely to expect lower inflation than someone who had been employed for longer and had thus experienced both high and low inflation regimes. If this is true for SA, young South Africans are more likely to expect lower inflation, because the inflation rate in the 16 years between 1999 (the year Sarb started with inflation targeting) and 2014 averaged 5.2%.

South Africans entering the job market during this period would have experienced a low-inflation regime. But those entering the job market in the 16 years between 1976 and 1991 witnessed an average inflation rate of 14.1%. This has important implications for policymakers, financial sector managers and their clients.

Those entering the job market in the sixteen years between 1976 and 1991 witnessed an average inflation rate of 14.1%.

Unknown biases

Behavioural economists repeatedly demonstrate that people have biases that they are often unaware of (in this case, a mix of the availability and familiarity heuristics). Younger financial advisers may weigh the recent low-inflation regime more heavily than older advisers would. An obvious way to diffuse such unknown biases is to have teams with advisers of different ages.

Such biases also influence household borrowing and lending behaviour. Younger people may, for example, be more inclined to choose variable-rate investments given that during their lived experience rates never varied dramatically. Older homeowners who remember the trauma of the 1998 rate hike may prefer fixed-rate investments.

Policymakers at the Sarb need to take heed of these findings and include demographic characteristics of consumers in their models of inflation expectations. ■

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Johan Fourie is associate professor in Economics at Stellenbosch University.

in brief

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>> **IN THE NEWS:** The problem with mining companies' boards *p.11*
>> Not just bullcrap: A novel way to generate energy *p.12*
>> Will Operation Phakisa live up to its name? *p.13*

EXECUTIVE PAY

R50.1m

Whitey Basson
CEO of Shoprite

The Public Investment Corporation (PIC), Shoprite's largest shareholder, voted against the R50.1m pay package awarded to Shoprite CEO Whitey Basson as it is largely a fixed payment, rather than performance-based, Bloomberg reported. The vote is non-binding. The group's share price dropped more than 6% on 19 October after it reported a 6.7% increase in turnover in the three months to September, compared with a 12.3% rise in the same period in 2014. Shoprite warned that its South African customer base was under pressure from job cuts in the mining industry, rising electricity costs, general labour instability and a lack of job creation, *Business Day* reported.

FOREIGNERS CASH IN

$1.7bn

South Africa has experienced a cumulative outflow of $1.7bn over the past year, driven mainly by foreigners exiting the bond market, according to a 19 October research note by Merrill Lynch. The foreign share in local debt has declined from a peak of 38% last year to 34.4% in August, while foreigners' share of the domestic equity market has appeared to be more stable over the past year, averaging around 46.5%, it said. Portfolio flows are important as they have an impact on the rand – this is because they're used to finance the country's persistent current account deficit.

EXPENSIVE TYPO

$6bn

Deutsche Bank accidentally sent $6bn (R79.6bn) to a US hedge fund client in June after a junior member of the investment bank's foreign exchange sales team accidentally entered the wrong numbers, Bloomberg reported. The Frankfurt-based banker, which saw its two co-chief executives resign in June after the bank missed profit targets and received a record $2.5bn fine in May for its role in rigging interest rates, was refunded the next day.

FERRARI IPO

$10bn

Luxury sports carmaker Ferrari raised $893m (R11.96bn) in its initial public offering (IPO) on 20 October, valuing the company at almost $10bn (R133.9bn) ahead of its listing on the New York Stock Exchange on 21 October, theguardian.com reported. The proceeds of the 9.1% stake will be used to fund the growth of Ferrari's controlling shareholder Fiat Chrysler Automobiles (FCA). The plans include the revamp of its Alfa Romeo, Jeep and Maserati brands. Ferrari tried to capitalise on the emotional resonance of its brand ahead of the IPO, targeting more retail investors than a typical IPO, focusing on high-net-worth individuals and Ferrari owners, theguardian.com reported.

GERMAN WORLD CUP PROBE

€6.7m

The German football association is investigating a payment of €6.7m made in 2005 by the country's 2006 World Cup organising committee to Fifa, ostensibly for a cultural programme, the *Financial Times* reported. Germany narrowly defeated South Africa to win the 2006 bid. A payment of $10m to Fifa by SA's local organising committee for the 2010 World Cup, supposedly for soccer development in the Caribbean, has been under investigation by US authorities. The German investigation is the latest allegation of possible financial irregularities involving Fifa, which governs world football.

Gallo Images / Getty Images

VENTURE CAPITAL PROFITS

R2.6bn

Over the past decade, South Africa has seen a total of 315 venture capital deals, with a combined value of about R2.6bn. According to new research by the Southern African Venture Capital and Private Equity Association (Savca), 81% of these venture capital deals were from private sector fund managers. Over the period of 2011 to 2015, declared profitable exits from venture capital investments totalled R438m, while write-offs declared for the same period totalled R187m. While the survey pointed to a decline in average deal size over the period, from R8.1m in 2011 to R3.4m in 2015, the number of deals increased from 26 to 43 over the same period. One reason for the shift, according to the survey, was that new-media, digitisation and e-commerce deals required lower transaction amounts.

ARCTIC DRILLING

$7bn

The Obama administration has cancelled auctions for drilling rights in the Chukchi and Beaufort seas in Alaska's Arctic Ocean, saying it doesn't make sense to prepare for new lease sales in the Arctic given the low oil prices, the amount of offshore acreage already under lease, and a decision by Shell Oil in September to halt an unsuccessful exploration programme in the area after spending $7bn (R92.9bn), the *New York Times* reported. The Shell project was the most advanced in the area. The decision to halt the auctions, which was hailed by environmental groups, shuts the door on drilling in the area for the next two years – a move that is expected to further hurt the Alaskan economy.

DOUBLE TAKE BY RICO

THE GOOD

The Recycling and Economic Development Initiative of SA (Redisa), established to cut the number of tyres that ended up in landfills every year, has created more than 2 500 jobs over the past two years. This is due to a tyre levy, which is used to collect and transport spent tyres and cover costs of tyre recyclers and other processors. It is now looking to spread its wings to become active in other waste sectors, starting with plastic. Yet a proposed change to waste legislation could mean the end of ring-fenced recycling levies, which would kill the job-creation potential of SA's 110m tons of waste that is generated a year and mostly ends up in landfills.

THE BAD

The Reserve Bank's latest leading indicator, which is used to foretell economic growth rates an estimated three quarters in advance, declined again in August to reach the lowest level since November 2009. It was the 22nd consecutive monthly contraction in the indicator, which takes into account factors such as the number of new passenger vehicles sold, number of building plans approved, commodity prices and business confidence levels.

THE UGLY

Government, specifically **minister of higher education and training, Blade Nzimande,** has been dodging the bullet during the recent university fee hike protests. After students marched to Parliament on 21 October, it became impossible to ignore. While government said it would look at ways of alleviating the impact of lower increases for universities, *Business Day* reported that while government subsidies grew by 7.7% over the past three years, this was expected to decrease to 6.3% over the next three. SA's bleak growth prospects and increasing pressure on taxpayers begs the question of whether government will step up to meet students' needs and universities' needs?And if so, how?

Blade Nzimande
Minister of higher education and training

"Having a driving licence doesn't make you a good driver." – Taste Holdings CEO Carlo Gonzaga on the lack of experience his company experienced during the roll out of outlets of its newly-owned Domino's Pizza brand. (See story on page 38.)

Cabinet delays hamper business

This week, I was sitting in the office of the manager of a small company that supplies water treatment chemicals in Nigeria. They've been in business here for many years, so the manager is in a position to comment on how things are now versus how they were under Goodluck Jonathan or indeed even further back.

Naturally, because Nigeria is madly political and we talk of little else, we're chatting about President Muhammadu Buhari and the continuing screening of his suggested ministers in the Nigerian Senate. By the time you read this there may be some appointments starting to trickle out, but it's more likely we'll still be hanging on for cabinet names and posts.

"So, you're a Buhari fan?" I ask.

"Oh, yes, huge – I am so positive about him and what he might be able to do here."

"And business-wise...?" I trail off, knowing that some observers say Buhari, while he's been proactive in other areas, for instance regional military cooperation over Boko Haram, is lagging behind on the business front.

"Oh no, business is awful, terrible – we can't get anything done," he says.

He, like many others, is a long-termist when it comes to this administration, though most are thinking in months and years rather than weeks and days because they have to, not because they want to.

As anyone who has been doing business in Nigeria for a long time knows, you should expect to wait a bit for everything. I don't think, however, that people had anticipated waiting for this long after the president's inauguration in May for ministerial appointments to get settled and for those ministers to set in place their plans and objectives for the next few years.

In the absence of a finance minister and a trade minister, senior civil servants have been filling the gap, and business people and development consultants in Abuja say it's been possible to get small tasks done, but that there's no sign-off for anything significant until the ministers have their feet under their desks.

It doesn't help that this is not a business climate in Nigeria in which people want to wait. With oil prices low and government budgets under pressure, the next few years are going to be difficult and ultra-competitive here.

Not knowing who you'll be dealing with at ministerial level and how that personality will affect dealings with the ministry at large seriously limits the ability of any business with government contracts to plan and manage its risk and its budgets. This is before you consider the impact of recent interventionist central bank policy on trade.

Business people and development consultants in Abuja say it's been possible to get small tasks done, but that there's no sign-off for anything significant until the ministers have their feet under their desks.

Consider the full gamut of everything from water purification chemicals producers and bitumen suppliers to bridge builders and you'll have an idea of the impact the slow progress on the ministerial appointments is having. That Buhari's victory was preceded by months of sluggish business activity as people waited for the election result isn't helping the waning levels of patience.

We all know how important it is that Buhari gets the right people into the right roles, especially given the impact of previous poor choosing on Nigeria's oil wealth and international reputation, but there has to come a point where those appointments actually take place and policy decisions start. There's been enough guessing and gossiping to last 10 administrations, and business people are sick of the talk: now is time for action. ■

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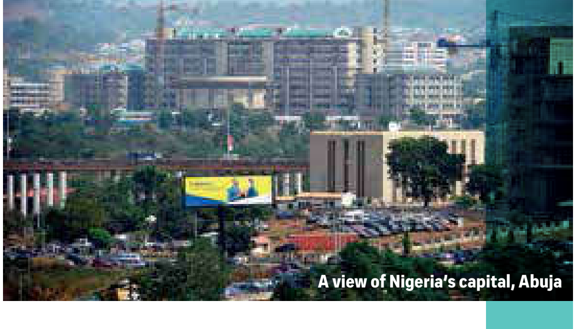

A view of Nigeria's capital, Abuja

David Aussenhofer/ullstein bild via Getty Images

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Shell gets nod to drill wells in SA's Orange basin

The department of environmental affairs issued an environmental authorisation allowing Shell South Africa to drill two proposed offshore exploration wells in the Orange Basin Deep Water Licence Area, off SA's west coast. According to an environmental impact report, successful exploration could result in the development of a South African oil and gas industry, whose long-term benefits would include access to new energy sources.

19/10/15 15:04

SAA, Airbus R6bn deal under scrutiny

The R6bn aircraft deal between SAA and French aircraft manufacturer, Airbus, has become the subject of an EY investigation. This followed reports that SAA board members were pressured into approving an "unaffordable" deal with Airbus. In 2014, SAA ordered 40 aircraft from Airbus. But last year, with 10 still to be delivered, the airline wanted to amend the contract and swap the outstanding aircraft for more fuel-efficient ones with bigger engines.

20/10/15 10:41

EOH snaps up R300m rail company

South African technology company EOH acquired Mehleketo Resourcing Proprietary Limited, a firm specialising in building operational nerve centres for the rail industry. Mehleketo Resources has a turnover of R300m and employs 350 people. According to EOH, Mehleketo also had a number of existing long-term projects as well as maintenance and support contracts.

19/10/15 16:18

By David McKay

The buck should stop with mining boards

With the mining sector drowning in debt, can a link be drawn between the composition of miners' boards and the bad decisions that are made by mining companies' management teams?

Professional investors are turning the finger of blame on mining company management for fouling up the commodities market, which has become flooded with $213bn in net debt during the past five years from just $4bn between 2007 and 2010.

"The issue in [mining] companies is that operational people are on the boards who are not skilled in capital allocation," says Piet Viljoen, a partner in asset management firm RECM. He believes managers, and even investors, were motivated by short-term factors when, in fact, mines take years to build.

"Managers are incentivised to get the share price up and they are motivated by fund managers and a banker who just wants to close a deal. The boards should check this, but boards are just rubber-stamping," he says.

According to a report by professional services firm PwC, skills represented on boards are, however, mostly drawn from the bean-counting fraternity.

In a survey of all JSE-listed mining companies with a market capitalisation of over R200m, and where most operations were in Africa (which discounts BHP Billiton, Glencore and South32), PwC found that 37% of all company boards consisted of accountants.

Engineers and geologists – loosely counted as 'operational people' referred to by Viljoen – constituted 22% of the total. Lawyers comprised 11% of all mining company boards while a worryingly large and unspecified 'other' nomenclature represented 30% of all boards.

Nonetheless, investors were unmoved.

According to Sandy McGregor, a fund manager for Allan Gray, it was the geologist Cynthia Carroll who committed the most heinous investment of the five-year period of capital misallocation in the mining sector. "I would choose Minas-Rio as the most misguided investment."

This is the iron ore mine built by Anglo American in the Brazilian interior. The UK group wrote off its investment in Minas-Rio by $4.96bn in 2012 and again, earlier this year, for an additional $3.9bn. Says McGregor: "If they [Anglo] had never done this they would have had a balance sheet that would be debt-free and be in a very strong position.

"What's interesting is that people in the market said it was stupidity. It's quite astonishing how companies lose sense of the real world outside themselves. Judgment is more than just a spread-sheet," he adds. It's for this reason that investors are supporting a remuneration policy that partly rewards executives only after the mine is completed, even if they have left the company.

"Only shareholders suffer," says Viljoen. "Cynthia Carroll is a lot better off than she was 15 years ago, but the Anglo share price is lower now than when she started." Carroll, now a consultant to India's Vedanta Resources, was appointed CEO of Anglo in October 2006.

McGregor believes there's more pain to come for the mining sector: "We've still got bankruptcies to come." However, his gloom is not a universally-held view.

"Companies go bankrupt but industries don't," says Henk Groenewald, an asset manager for Coronation Fund Managers. "I still think there will be a mining sector in 10 years and I think now is a good time to start buying some companies," he says, adding that platinum group metal, manganese and chrome producers were worth assessing.

"We've been through a terrible time for the past two years, but now we're looking for opportunities," says Fidelis Madavo, head of the mining unit at the Public Investment Corporation, the state-owned asset management firm. ■

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"The issue in [mining] companies is that operational people are on the boards who are not skilled in capital allocation."

Piet Viljoen
Partner at asset management firm RECM

Cynthia Carroll
Former CEO of Anglo American

Engineers and geologists – loosely counted as 'operational people' referred to by Viljoen – constituted

22%

of the total on boards.

Minas-Rio

BEE REPRESENTATION

The Chamber of Mines of SA is hoping an out-of-court settlement with government can solve the stand-off over whether the mining sector complies with the mining charter, a document that 10 years ago set down empowerment targets.

Included in the charter was a section sketching out the employment equity required of the sector. Given the dispute with government – which thinks the mining sector is far below the 26% equity ownership required by the charter – it will come as some relief that an independent report finds the industry complies with the charter's employment equity targets at board level. But only just.

According to professional services firm PwC, 41% of board members are represented by historically disadvantaged South Africans or HDSAs. This compares to the minimum 40% representation by December 2014, set down by the charter.

When this board composition is analysed by age, it is interesting that 30% of board members are younger than 50; 53% of these board members are HDSA, said PwC. Female representation at board level also exceeds the minimum requirements of 10% by 2014 set out in the mining charter, said PwC.

By Glenda Williams

Converting cow dung into (horse) power

BMW has partnered with Bio2Watt in a deal that will allow the German automanufacturer to tap into a novel way of obtaining clean, renewable energy for its Rosslyn plant.

BMW is on familiar turf when it comes to horse power and the performance this provides in its cars. New for the German carmaker is its relationship with the bovine species and the power derived from this association.

Yet this unlikely relationship has afforded BMW a novel way of obtaining green power to run its Rosslyn production plant north of Pretoria… using cow manure, and plenty of it. About 40 000 tons of cattle manure and 20 000 tons of mixed organic waste are converted annually into electrical energy by BMW's partner in renewable energy, Bio2Watt (Pty) Limited.

Cow manure is not in short supply in the Bronkhorstspruit area where biogas entity Bio2Watt is located. Surrounded by cattle and situated on Beefcor's premises (one of SA's larger feedlots), the plant is fed 500 tons of organic waste – including 100m^3 to 300m^3 of water – each day from Beefcor and the City of Tshwane. Using Danish technology the waste is directed into a digester where biogas (primarily methane and carbon dioxide*) is produced. Channelled to a gas engine that produces electricity, the green power is then fed directly into the power grid for uptake by power purchasers like BMW.

"Once the waste goes into the digester it takes roughly 30 to 35 days to complete the process," explains Sean Thomas, CEO of Bio2Watt. It's not only power being generated by the plant. For every 100 tons of waste, 50 tons of fertiliser – which Thomas aims to get certified as organic – is produced, which is largely sold back to farms.

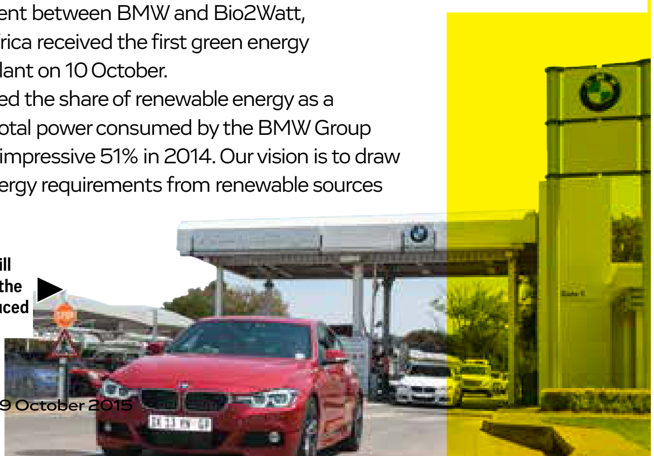
Converting organic waste into electrical energy is a well-established, proven technology with thousands of biogas plants throughout Asia, Europe and USA. In Germany alone the installed capacity of biogas is higher than solar or wind.

The partnering of Bio2Watt and BMW is the first private deal of its kind in the country and 25% to 30% of plant Rosslyn's electricity requirement will now be generated from renewable sources. Following the signing of a 10-year renewable energy agreement between BMW and Bio2Watt, BMW South Africa received the first green energy at its Rosslyn plant on 10 October.

"We increased the share of renewable energy as a percentage of total power consumed by the BMW Group [globally] to an impressive 51% in 2014. Our vision is to draw 100% of our energy requirements from renewable sources

Bio2Watt's biogas plant in Bronkhorstspruit

The partnering of Bio2Watt and BMW is the first private deal of its kind in the country and 25% to 30% of plant Rosslyn's electricity requirement will now be generated from renewable sources.



The BMW Rosslyn production plant will be the recipient of the green energy produced by Bio2Watt.

BENEFITS OF BIOGAS

- Sustainable solution for the disposal of organic waste.
- Diversified energy supply and carbon footprint reduction.
- Reduction in the volumes of waste that go to landfill.
- Ten direct and indirect jobs per megawatt can be created compared to about 0.9 jobs that wind or solar provides.
- According to the Southern African Biogas Industry Association, biogas can contribute 2.5GW generation capacity to the country.
- Biogas is a storable form of renewable energy.

with the help of partners such as Bio2Watt," says Tim Abbott, managing director of BMW Group South Africa.

The Bio2Watt plant in Bronkhorstspruit has the capacity to generate 4.4MW of energy and more projects are being established with construction of a second project in Malmesbury, Western Cape, commencing in 2016. "There are about 4m cattle in South Africa, a significant number of which are held on large farms and the potential for project replication is substantial," says Thomas.

The eight-year journey to get this first-of-a-kind project in the country up and running is testament to powerful partnerships – BMW, City of Tshwane, Beefcor, Eskom and various committed funders. "As an entrepreneur and start-up, having BMW as part of this initiative lent credibility and opened doors," says Thomas.

And while Eskom had a framework for private generation, it appears that the Bronkhorstspruit biogas plant may well be used as a benchmark for private sale of power. ■

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**Biogas technology is considered carbon neutral because it releases biogenic carbon dioxide emissions.*

By David McKay

Operation Phakisa – just more hot air?

Government hopes to speedily address unemployment and poverty with its Operation Phakisa, but the programme was harshly ciriticised at the recent Joburg Indaba.

Gallo Images/Getty Images

Operation Phakisa, a government initiative aimed at identifying solutions to issues first identified by the National Development Plan (NDP) such as poverty and unemployment, might look great on paper, but several mining industry leaders are sceptical as to whether it will have a significant impact.

The primary concern is that it'll be another 'talk shop' akin to recent other encounters held between unions and the private sector such as the annual Mining Lekgotla (cancelled this year). Mining bosses are also influenced by the lack of agreement on the mining charter – a development that first went to the courts and has now been set aside for another round of talks.

The commentary at a recent mining conference, the Joburg Indaba, repeatedly settled on the need for more honest conversations, not least of which was from one of the authors of the NDP, Trevor Manuel, now deputy chairman of financial advisory group Rothschild.

"Phakisa is a long list; it's a nice list, but it's also a list for nice conversation," said Manuel. He warned invited participants not to engage in the talk of "smoke-filled rooms [...] so that by the end of the fourth bottle of wine everyone feels they are loved".

"I speak with the freedom of an outsider. Mining is like politics in that both are at a low ebb," he said.

Operation Phakisa, which is administered through the department of planning, monitoring and evaluation, and extends to the whole economy, not just mining, has its origin in President Jacob Zuma's 2013 visit to Malaysia. It was during that visit he heard about the country's successes in tackling unemployment and crime through a process it called Big Fast Results Methodology. As a result, the local version was named *Phakisa*, which means 'hurry up' in Sesotho.

"Phakisa is a long list; it's a nice list, but it's also a list for nice conversation."

There is, though, not enough 'hurrying up' for some, including Bernard Swanepoel, the former CEO of Harmony Gold and Village Main Reef. "The fear with Operation Phakisa is the design," he said. Extending the mining discussion over more than a month was not practical for the executive class, he said.

"I'm sure it will only have junior people attending because I don't expect people like Terence Goodlace [CEO of Impala Platinum] to have five weeks to sit on a golf course," said Swanepoel.

Joseph Mathunjwa
President of Amcu

Trevor Manuel
Deputy chairman of Rothschild

Bernard Swanepoel
Former CEO of Harmony Gold

Neal Froneman
CEO of Sibanye Gold

Terence Goodlace
CEO of Impala Platinum

Of the usual no-shows, perhaps among the most critical is Joseph Mathunjwa, president of the Association of Mineworkers and Construction Union (Amcu). In a rare appearance, Mathunjwa was scornful of the exercise, saying it made "no sense", and claiming not to know much about it.

Amcu is the largest union in the platinum sector and is rapidly growing its membership in the gold industry (also see page 28).

"We're in a situation now where, if we don't dig ourselves out of the productivity hole we have created, there is NO FUTURE. It's that urgent."

In the wake of the Marikana atrocity, and amid claims from the Benchmarks Foundation that the mining sector has lost its legitimacy among communities, a conversation with the edgiest of the sector's union is exactly the kind of "hard encounter" Phakisa's critics want to see take place. The size and shape of the difficulties of conversation were perfectly demonstrated in an exchange between Mathunjwa and Impala's Goodlace at the Joburg Indaba.

Said Goodlace in respect of the need to attract foreign capital: "We're in a situation where, if we don't dig ourselves out of the productivity hole we have created, there is no future. It's that urgent.

"It can't only be a conversation on wage negotiations; we have to rectify productivity," he added.

Mathunjwa replied: "Capitalists are not going to invest in order to correct things of the past. I tell you, if this doesn't change, SA will burn. Government policies just seem to be embracing the capitalist approach."

Never one to mince his words, Sibanye Gold CEO, Neal Froneman, said the mining sector had nothing to rely on except its own efforts. "We have looked for leadership from government but it hasn't come.

"And we don't look for it from unions or associations. It won't come from any other stakeholder but ourselves. We have to be aware of what's noise; what we can change; and what we can't. I think Operation Phakisa might be a talk shop," he said. ■

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market place

Don't miss: The *finweek Money Matters* show every Friday at 1PM on CNBC Africa, channel 410. In the show, we talk to experts about the next issue's top stories.

FUND IN FOCUS: THE AUTUS BCI BALANCED FUND

By Jaco Visser

Top-performing fund looks to new business models for returns

As a regulation 28-compliant unit trust, the Autus BCI Balanced Fund can be used as an underlying investment for retirement savings. It aims to grow capital over the medium to long term and provide investors with increasing income from underlying assets. The fund is mainly invested in other Autus unit trusts, such as the global and local equity funds.

FUND INFORMATION

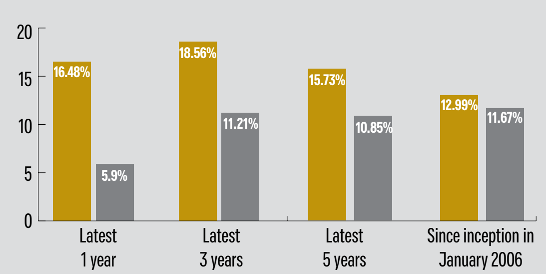
Benchmark:	**55% FTSE/JSE Alsi, 45% STeFI Composite**
Minimum lump sum/ subsequent investment:	**R10 000 lump sum or R500/month**
Fund managers:	**Christo Malan and Niël Hougaard**
Total Expense Ratio (TER):	**3.61%**
Fund size:	**R450.3m**
Contact details:	**info@autus.co.za or 021 007 1500**

PORTFOLIO COMPOSITION

as at 30 September 2015:		% of fund
1	Autus BCI Global Equity Fund	16%
2	Autus BCI Equity Fund	15.1%
3	Autus BCI Opportunity Fund	15%
4	Autus BCI Worldwide Flexible Fund	14.7%
5	Autus BCI Property Fund	8.9%
6	Autus BCI Income Plus Fund	7.6%
7	PSG Group	1.9%
8	Curro Holdings	1.7%
9	Mediclinic	1.3%
10	Capitec	1.2%
	TOTAL	**83.4%**

% RETURNS

Annualised, as at 30 September 2015: Autus BCI Balanced Fund / Benchmark



Fund manager insights

The fund has utilised its full offshore allocation of 25% as the local equity market is "very highly priced", according to Niël Hougaard, one of the fund's managers.

The biggest underlying holding of the balanced fund is Autus's global equity fund, which has an 8.3% exposure to Starbucks, 7.9% to Apple Inc., 5.7% to Visa, 5.4% to MasterCard and 5.2% to Amazon.

"We look at all the different equity sectors and identify the largest players in those sectors," Hougaard explains. "We feel comfortable with the names we picked."

The global equity fund's choices in stocks benefitted the balanced fund over the past six months, Hougaard says.

In addition, the fund sold out of resource stocks about a year ago, Hougaard says. "It was no secret that China's growth picture is increasingly dark," he says. "They're under pressure and they have the biggest demand for resources."

> "The fund has utilised its full offshore allocation of **25%** as the local equity market is "very highly priced"."

On the local front, the company's top picks are the PSG Group, along with its holdings, private education company Curro Holdings and low-cost bank Capitec.

"We like PSG's diversification," Hougaard explains. "They also have very strong management teams."

He isn't too optimistic about the prospect of the local economy. Weak economic growth and the fallout from the persistent rolling power outages during the winter months would continue for the rest of the year, according to him. "It will come through in companies' earnings soon," he says.

Why *finweek* would consider adding it

The fund is invested in the world's largest consumer-facing stocks, which include Starbucks, Amazon and Apple. Other consumer-driven companies, such as credit card giants Visa and MasterCard, currently benefit from the stronger US economy.
The fund's prudent appraisal of the local stock market, which is that it is expensive at current valuations, together with an outlook of dimmed corporate earnings in the next reporting season, is a plus. This can also be seen in the fund's rather large local cash holding of 26.7%.

With almost a quarter of the fund invested offshore, it is a good bet in times of rand weakness, as currently is the case. Even a moderate appreciation in the currency wouldn't offset the strong growth potential of the underlying US stocks. ■

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BALWIN

BUY SELL HOLD

By Simon Brown

A stand-out listing on the JSE


De Velde
Somerset West

Balwin is one of the latest new listings on the JSE and focuses on large residential developments of 500 to 1 000 units for the R600 000 to R1.7m markets. Its pipeline of business stretches some eight years and just over 17 000 units.

It's not a construction firm as it outsources the building of these developments and many of the units will be pre-sold before construction even starts. This reduces risk, but there are still two important risks; both pertain to the buyers of the units.

A significant move higher in interest rates and/or a serious local economic downturn would markedly reduce demand. While the company can manage this by building fewer units, it will impact profits and growth.

In many ways Balwin is similar to Calgro M3, but Calgro targets a lower LSM market and does its own building. Both are different from other investments on the JSE.

I hold both with Calgro, priced at a P/E of around 20 times P/E, and Balwin at a little over half of that. ■

Last trade ideas

- BUY Rolfes
- SELL Phumelela
- SELL SABMiller
- BUY iShares US Real Estate (ETF)

ADAPT IT HOLDINGS

BUY SELL HOLD

By Moxima Gama

A great niche player

Technology firm Adapt IT is strengthening its footprint in the financial services industry through the acquisition of CQS Technology Holdings, a niche firm that provides audit, financial and risk management services and solutions.

The deal, announced on 19 October, is worth R217m. CQS shareholders will receive R159.9m in cash and R56.9m in Adapt IT shares.


Sbu Shabalala
CEO of Adapt IT

In addition to the financial services market, Adapt IT provides services to companies in the education, energy and manufacturing sectors in more than 20 countries. CQS is seen as a leader in financial services, and currently services more than 4 000 clients in 30 countries including Nigeria, Kenya, Zambia, Tanzania, Botswana and Zimbabwe through a direct and a distributor network.

Adapt IT, which has seen its share price jump 85% over the past year, has been successful in growing the business through acquisitions and organic expansion. The group, with a market capitalisation of R1.48bn, reported a 43% increase in turnover to R575m in the year to end June, while headline earnings per share were up 35% to 46.5c over the same period. It bought telecoms software provider Aspivia Unison and New Zealand-based Student Management Software Systems in the past financial year.

CEO Sbu Shabalala's vision is to build Adapt IT into a leading software and services vendor business, which will focus mainly on providing intellectual property and software globally, using SA as its base to build technologies.

Adapt IT presents a good buying opportunity at any level above R100/share, with projected upside to R141.50/share levels in the near to short term. A 'buy on the dips' strategy is advisable. ■

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Last trade ideas

- BUY Tsogo Sun Holdings
- BUY Brait SE
- BUY Curro Holdings
- SELL Netcare

The group, with a market capitalisation of
R1.48bn,
reported a 43% increase in turnover to
R575m
in the year to end June, while headline earnings per share were
up 35% to 46.5c
over the same period.

By Moxima Gama

NEDBANK GROUP LTD

Set to end its correction

Despite a challenging year, SA's major banks have proven resilient. A PwC report reveals that Nedbank experienced a 15.7% increase in headline earnings for the six months to end June and seems to be making headway from its recent correction.

It's been a tough year for South Africa's major banks. The year 2015 kicked off with ratings agency Moody's downgrading the local-currency deposit and senior unsecured debt ratings of the four largest banks by one notch in February in reaction to the collapse of African Bank Investments (Abil).

The downgrade was prompted by the South African Reserve Bank's decision not to bail out Abil over its "bad debts". The bank had run into trouble over its unsecured lending book. In addition, local banks' performances have been hampered by slowing economic growth in their home market, increased market volatility and a slowdown in transactional activity across the wholesale and retail markets as consumers remain highly indebted.

However, despite the challenging operating environment, the major banks (Nedbank, Standard Bank, Barclays Africa Group and FirstRand) posted strong results for the first half of 2015, PwC said in its half-yearly *Analysis of South Africa's major banks,* published in September. Overall, the major banks reported combined growth in headline earnings of 17.7% year-on-year in the six months to end June, driven by growth in net interest income and non-interest revenue, as well as a decline in impairments, PwC said.

Gross loans and advances experienced double-digit year-on-year growth of 11.6% for the six months to end June, driven by healthy demand in the corporate and investment banking sector, which outpaced retail credit demand.

While the major banks have reported strong results, their share prices have been lagging. Nedbank's year-to-date return (a measure that includes share price movements as well as dividends paid) is -5.6%; Barclays Africa Group's -2.5%; FirstRand's -1.9% and Standard Bank's 2.3%, all lagging the JSE's All Share Index, which has returned 6.76% in the year to date, according to Bloomberg data.

In contrast, Capitec, the fifth-largest bank on the JSE based on market capitalisation, has returned a whopping 68% since the start of the year. The PwC report highlighted the major banks' resilience and diversification of revenue pools despite weak economic growth projections, energy supply concerns, the sizeable deficits on both the current and fiscal accounts, and the actions by some credit rating agencies to revise the country's external credit ratings and outlook.

Nedbank, a subsidiary of Old Mutual, reported an increase of 15.7% increase in headline earnings to R5.3bn for the six months to end June. It managed to increase its return on equity (excluding goodwill) from 16.5% in the first six months of 2014 to 17.3% in the period under review, while cost of equity declined from 13.5% to 13% over the same period. It increased its interim dividend by 16.7% to R5.37 a share. Although the current consensus view of seven analysts polled by INET BFA in the past three months on Nedbank is a hold, the group seems to be making headway from its recent correction.

52-week range:	R213 - R274.50
Price/earnings ratio:	22.63
1-year total return:	+9.6
Market capitalisation:	R114.6bn
Earnings per share:	R22.63
Dividend yield:	4.77%
Average volume over 30 days:	626 875

SOURCE: Bloomberg.com

NEDBANK GROUP LTD (WEEKLY CHART)

SOURCE: MetaStock Pro (Reuters)

Possible scenario: Nedbank has breached the upper slope of a falling-wedge pattern. A positive breakout above R237.50/share is yet to be confirmed, but a neutral long position would be recommended above that level, with the upside target situated at R344.75/share, and achievable in the medium term (6 to 12 months).

Alternative scenario: The major support trendline would have been breached below R211/share. The long-term bull trend would end below R198.25/share. ■

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Moxima Gama has been rated as one of the top 5 technical analysts in South Africa and outperformed the market during the recent recession. She has been a technical analyst for 10 years, working for BJM, Noah Financial Innovation and for Standard Bank as part of the Research Team in the Treasury Division of CIB.

By Simon Brown

Simon's stock tips

Founder and director of investment website JustOneLap.com, Simon Brown is *finweek*'s resident expert on the stock markets. In this column, he provides insight into the week's main market news.

PICK N PAY

Good results but hard work remains

Pick n Pay results came in looking really good. The company has stopped market share losses and has got most of its levers working thanks to Richard Brasher doing wonders for the company in the two and a half years he's been running it. Now the really hard work begins and two concerns remain. Margins are very slim – this will be due to price discounting and promotions such as smart shopper and stikeez. The challenge will now be to reduce these discount and promotional costs while holding onto and growing market share. The second issue is that the stock remains very expensive. With a price-to-earnings ratio (P/E) of almost 35 times, one is paying for vast amounts of blue sky that simply don't exist – even if Brasher has been doing a great job so far.

With a P/E of almost **35 times,** one is paying for vast amounts of blue sky that simply don't exist.

PINNACLE

Offer's timing not ideal

Pinnacle has finally made the expected offer for Datacentrix in an all-share transaction. As I have written previously, Pinnacle would much rather have made the offer when its share price was around double what it is now – that would have made the deal half the current price. But it looks to be a good deal for Datacentrix shareholders and I would accept.

AB INBEV/SABMILLER

A year-long wait, at least

The SABMiller/AB InBev deal is set to happen at £44 which, at current exchange rates, is a little under R900; a monster offer that the SABMiller board held out for, pushing AB InBev to a 50% premium. The share is trading some R100 lower than the offer price for two reasons. Firstly, there is not as yet a firm deal – there are intentions and a $3bn break fee – but things could still go wrong, very unlikely but not impossible. The bigger reason for the discount is that this deal will take a year or more to conclude, so that difference is the time value of money. If you're holding SABMiller you'll get a return of around 10% (exchange rate dependent) between now and when the deal concludes in about a year. I will not be watching for any opportunities if that gap widens as my concern is that a stronger rand against the sterling will reduce potential profits. It's unlikely that I will attempt to get my hands on this easy money.

TASTE HOLDINGS

Share price slides

Taste results showed lots of spending as it ramps up its new and expensive brands, Starbucks and Domino's Pizza. This has meant a third rights issue to raise another R226m to fund the Arthur Kaplan deal and the Starbucks roll-out. The new shares are being issued at R3. That's not a bad price but, as mentioned before, we will only be seeing the earnings from all the spending in two to three years at best as the price continues to slide; we'll likely see R3 and lower on the market soon enough. So existing shareholders may be better served to sell the nil-paid letters (NPLs) they get for the rights issue and buy on the open market when (if?) the share drops below R3.

RICHEMONT

Easy bucks for shareholders

Richemont* dividends are taxed in Switzerland as that's where the company is based and the Swiss tax dividends at 35%. South African shareholders can claim back 20%, making it only a 15% dividend tax. The company has posted the withholding tax reclaim letters that one has to fill in to get the refund. It is a process that I do not enjoy but I do love the resulting easy money in my account. If you don't receive your letters by the end of the month, contact your broker as the documents may be delayed somewhere in the postal system. ■

South African shareholders can claim back **20%** making it only a 15% dividend tax.

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**The writer owns shares in Richemont.*

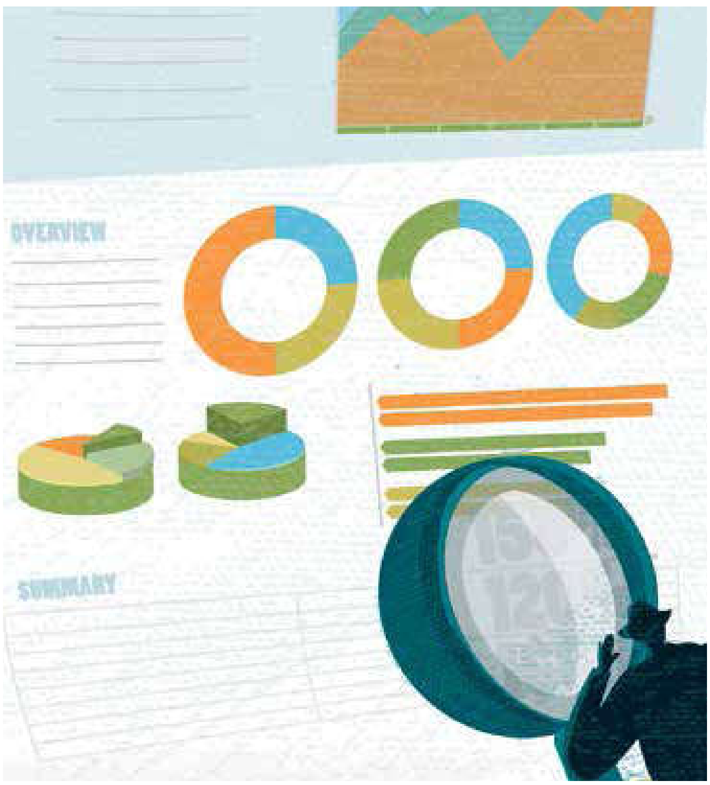
By Simon Brown

INVESTING

Why you should use the discounted cash flow model to value a stock

It is vital to have a thorough understanding of any company before deciding to invest in it. One of the ways to gauge how a stock's fortunes look is to do a discounted cash flow valuation.

There are many different ways to value a company – from the simple price-to-earnings (P/E), dividend yield and price/earnings to growth (PEG) ratios to the more complex Du Pont and dividend discount models. But the most popular method by far, which is used by pretty much every asset manager I speak to, is the discounted cash flow (DCF) model.



Gallo Images/iStock

The formula and process are complex but at the heart of the process is the notion that if you are buying a stock, ultimately you're buying future cash flows. As a result, the DCF model tries to determine how much cash, adjusted for the time value of money, one would receive from an investment. This notion of the time value of money is important – R10 today is worth a lot more than R10 will be worth in a decade. So a DCF gives a net present value of the company and if the price at which you can buy the stock is below this net present value, then the stock is considered cheap.

The first part of the process is to decide how far into the future to determine future cash flows. In truth, it's an educated guess on a company's revenue growth. Eventually that growth flattens out and hits the terminal growth period. So one would decide, for example, that revenue growth will be 25% a year for five years before dropping to a terminal rate of say 12% a year thereafter. This growth rate would depend on the company's product or service, and issues such as barriers to entry and competition in the space, amongst other things.

The DCF model tries to determine how much cash, adjusted for the time value of money, one would receive from an investment.

A low-margin industry that is very competitive would have low growth rates and hit terminal rates fairly quickly. Conversely, an industry with a high barrier to entry that has high margins would take longer to achieve terminal growth rates.

This revenue growth figure shouldn't be a thumb suck. One can create complex spreadsheets that work out future growth. Inputs would include not only the revenue growth, but also margins, cost increases and the like.

A lot can go wrong with these assumptions, but as Tshepo Madiba of Seriti Asset Management once commented to me: while a lot of assumptions need to be made, they can be measured against the company's results once they are released. If the assumption on, for example, margin growth was wrong, not only can the error be spotted, but one can also try to understand how the error was made. Assumptions can then be corrected for the next period. This actually makes it more likely that future assumptions will be accurate. Perhaps accuracy is the wrong word; being *more correct* is really the aim as it is unlikely that estimates will ever be 100% accurate. It is about being as correct as possible.

The cost of capital is also required; here weighted average cost of capital (WACC) is used. Any company is funded by equity capital (shareholders who put money in) or debt. These have different 'costs' and different companies have different amounts of each, hence the weighted values. This WACC formula is in itself complicated – not so much the debt side, but determining the cost of equity is certainly neither easy nor an exact science.

At the end of the day, doing a DCF on a company is difficult and takes time. But it does give one a deep understanding of the business and its profit drivers. This is an important point – one needs to understand the company one is investing in as well as possible. Be aware of the challenges, risks and possible failure points. Decisions about the company's future profitability can then be made. ■

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By Abrie Pretorius

VISA

Secure and sustainable

This nearly 60-year-old company is attractive because it is firmly entrenched in its field. Being a far less risky play than the banks, Visa is also an option for those looking to gain exposure to the financial services industry.

For us one of the stocks that stands out from a global perspective is Visa, the world's biggest payment processing network. It is one of the core investments in our Global Franchise Fund. The most important reason why this company excites us, is because it offers a unique way to gain exposure to the financial services sector without the high risk of a banking share.

In terms of our investment philosophy, we seek out companies with exceptional qualities that are able to secure their own prosperity and future to a large extent, regardless of market movements. We are particularly interested in enterprises with sustainable business models in which they continue to invest.

Visa is such a company. It came into being in the 1950s when a bank created payment platforms, but listed only relatively recently in 2008 and has since put up a very good show (with a total yield of 260% from its listing until now, compared to the 39% of the MSCI AC World over the same period).

Today Visa is the leader in its field, with more than 2.1bn cards worldwide. It processes a volume of about $6.3tr per year out of the some 80tr transactions happening on its platform, and earns a fee for each transaction going through its network.

With more technology being added

Andrew Harrer/Bloomberg via Getty Images

over the last number of years with the entry of competitors such as PayPal and developments in the field of smartphones and apps, the feasibility of Visa's model has become a matter of concern. Our view, however, is that these developments contribute to the case for an investment in Visa.

Today Visa is the leader in its field, with more than **2.1bn** cards worldwide. It processes a volume of about $6.3tr per year out of the some 80tr transactions happening on its platform, and earns a fee for each transaction going through its network.

Visa's competitive advantage lies in the simple manner in which it links with an individual's bank account, and the required authorisation and clearance that it can provide. Banks are reluctant to allow other parties access to their architecture and accounts, for security and financial reasons.

What also counts in its favour, relative to newer rivals, is that Visa has entrenched operating areas, mainly because of its experience in this field. The fact that Visa and MasterCard were able to build market share for such a long time without many competitors means others find it quite difficult to enter the market.

Visa has gained unequalled advantages of scale across consumers, merchants and banks. There are also powerful trends in the industry that are to Visa's advantage, such as that some 85% of all transactions globally still happen in cash or cheques, which leaves a lot of room for growth in the card industry.

Encouraging for investors is that Visa has succeeded (despite historical regulations) in keeping its revenue per transaction stable, and sometimes increasing it, which indicates that it has some pricing power.

Visa realises a yield of some 80% on the capital that it invests, and 85% of its available cash flow is distributed in the form of dividends and share buybacks – enabling it to grow its profits in double digits.

We believe it is a far superior long-term outcome to invest in high-quality companies, such as Visa, that can sustainably earn very high returns on every dollar of capital invested into their business. It converts 100% of its profits into cash, requires no debt to grow and can reinvest this strong cash flow back into the business to create a consistent compound effect. Compare that to banks, for example, which are generally unable to earn a return on every dollar of capital invested into the business that is higher than the cost of that capital; can only improve profitability by increasing debt levels and generate very sporadic cash flow. ■

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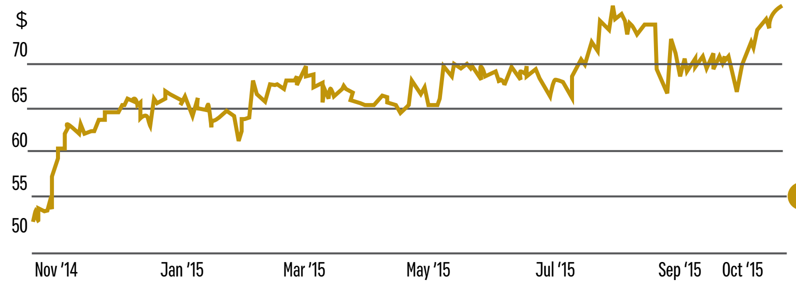
Abrie Pretorius is a portfolio manager at Investec Asset Management.

VISA



52-week range:	$51.98 - $77.33
Price/earnings ratio:	37.7
1-year total return:	+44.26%
Market capitalisation:	$185.6bn
Earnings per share:	$2.02
Dividend yield:	0.63%
Average volume over 30 days:	2 324 232

SOURCE: Bloomberg.com

By Schalk Louw

ECONOMIC DOWNTURN

South Africa in perspective

The country went from being an emerging market darling to an economy characterised by sluggish growth. Were hopes misplaced or should we just take a step back and re-assess?

Many readers are probably familiar with the joke about the two war veterans reminiscing at a reunion. Koos turns to Mike and asks him whether he remembers the Spierbult massacre. "Of course," Mike replies, "That was a big day; how can anyone forget? It was 10 men against 10 000."

"That's right," Koos said, "And do you remember how quickly we beat those 10 men into the ground?" Why this joke, you ask? It's about perspective.

Though it may not always be clear to us as South Africans, we also feel that we are being beaten into the ground these days by the rest of the world on an economic and investment front. You don't have to take an overseas trip to realise that your rands simply cannot buy as much as they could five years ago.

When we take a look at our local stock market, things look pretty much the same. Over the past five years (up to end September 2015) capital growth, excluding dividends, in the FTSE All World Index in dollar terms, amounted to 5% per year. During the same period, the FTSE/JSE All Share Index grew by 11% in rand terms (also excluding dividends).

But to compare these two percentages to each other is the same as viewing the Spierbult massacre as a great achievement. It's only when we view our growth in dollar terms that we get a proper perspective. The hard reality is that the JSE didn't only perform 8% poorer when compared to world markets, but it also *declined* by 3% per year over the past five years in dollar terms.

Where did things start to go wrong? Less than a decade ago, well-known investment experts such as Mark Mobius claimed that emerging markets (including the South African market) offered the best investment potential. Were these experts wrong, or was the playing field altered in such a way that this claim should be reconsidered?

Mark Mobius
Chairman of Templeton Emerging Markets Investment Trust

The short answer is that they weren't wrong, but in supporting my answer, we should have a look at why investors like Mobius prefer to invest in emerging markets.

Less than a decade ago, investment experts claimed that emerging markets (including the South African market) offered the best investment potential.

In my opinion, the answer lies in the very definition of an emerging market. According to investopedia.com, emerging markets are popular among investors because they offer prospects of higher returns, simply due to the fact that they often experience faster economic growth as measured by their GDP.

These higher yields, however, come with much greater risk due to emerging markets' political instability, infrastructural problems, volatile currencies and limited stock opportunities.

Nearly a decade ago during a time when everyone was still in love with emerging countries, South Africa had a healthy economy. Between 2005 and 2009, the country's GDP grew about 3% faster compared to the annual GDP growth of the G7 nations (Canada, France, Germany, Italy, Japan, the UK and US). That made it worthwhile for large investors to take these risks with the prospects of higher returns.

Since then, however, this difference has decreased considerably, up to where SA's economic growth is now even slower than the economic growth of the older established developed countries.

That means that despite a strong underperformance of South African equities, when compared to developed markets, major investors worldwide would not be alerted to come looking for bargains in the South African market.

Locally, we don't have to restrict our personal share portfolios to domestic shares. An individual is allowed to apply for clearance to invest up to R10m per calendar year offshore. This clearance process has also been simplified tremendously and an individual is allowed to invest up to R1m offshore without even having to obtain a tax clearance certificate. Opening and managing an offshore share portfolio isn't all that complicated either.

The rand's weakening may be exaggerated over the short term, making timing a cardinal factor in your offshore investment, but do not lose perspective. We may be an emerging country, but we play a very small role in the big world of investments. ■

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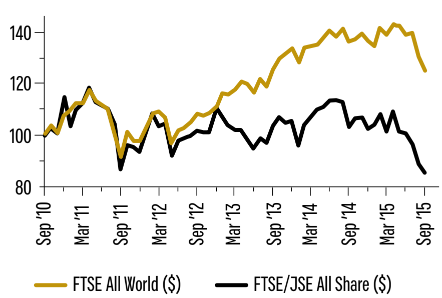
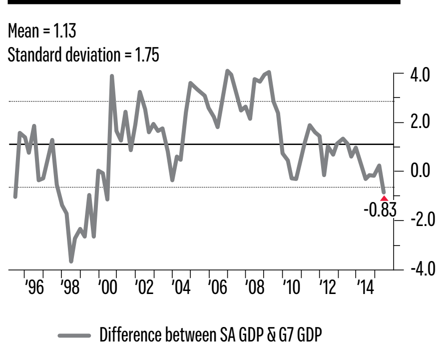
FTSE All World Index vs FTSE/JSE All Share Index in $



(SOURCE: PSG Old Oak & INET BFA)

Difference between SA GDP and G7 GDP



Schalk Louw is a portfolio manager at PSG Wealth.

DIRECTORS DEALINGS

COMPANY	DIRECTOR	TRANS. DATE	TRANSACTION TYPE	VOLUME	PRICE (C)	VALUE (R)	DATE MODIFIED
BIDVEST	BL Berson	12 October	Sell	47,930	34502	16,536,808	15 October
BIDVEST	CA Brighten	9 October	Sell	1,775	34499	612,357	14 October
BIDVEST	DE Cleasby	9 October	Sell	30,000	34729	10,418,700	14 October
BIDVEST	AA da Costa	14 October	Sell	22,000	33150	7,293,000	16 October
BIDVEST	AW Dawe	15 October	Sell	20,081	34440	6,915,896	16 October
BIDVEST	B Joffe	9 October	Sell	89,000	34729	30,908,810	14 October
DISCOVERY	SV Zilwa	8 October	Sell	21,725	13809	3,000,005	14 October
EXXARO	MDM Mgojo	16 October	Sell	40,000	6420	2,568,000	20 October
FIRSTRAND	NN Gwagwa	14 October	Sell	104,000	4904	5,100,160	16 October
HOLDSPORT	KG Hodgson	16 October	Sell	16,089	6138	987,542	19 October
IMPERIAL	JJ Strydom	15 October	Sell	3,957	18084	715,583	16 October
IMPERIAL	RA Venter	14 October	Sell	1,195	17701	211,526	16 October
IMPLATS	B Ngonyama	15 October	Purchase	3,180	4705	149,619	19 October
LIBERTY	SP Sibisi	14 October	Sell	15,200	13152	1,999,104	15 October
METROFILE	GD Wackrill	14 October	Sell	73,104	495	361,864	16 October
METROFILE	GD Wackrill	14 October	Sell	96,614	495	478,239	16 October
MPACT	HM Thompson	16 October	Sell	10,000	5000	500,000	19 October
SASOL	F Grobler	9 October	Exercise Options	1,300	46429	603,577	14 October
SIBANYE	BE Davison	15 October	Purchase	500,000	2399	11,995,000	16 October
SIBANYE	C Keyter	12 October	Sell	49,351	2174	1,072,890	14 October
SUPER GROUP	K Mmutlana	12 October	Exercise Options	284	2570	7,298	14 October
SUPER GROUP	NS Redford	12 October	Exercise Options	10,160	2570	261,112	14 October
TASTE	DJ Crosson	13 October	Exercise Options	39,896	367	146,418	16 October
TASTE	DJ Crosson	14 October	Exercise Options	118,104	356	420,450	16 October
TEXTON	JA Legh	9 October	Purchase	24,959	1000	249,590	14 October
TEXTON	MJ van Heerden	9 October	Sell	49,918	1000	499,180	14 October
WOOLIES	I Moir	14 October	Sell	575,381	8855	50,949,987	16 October

BEST AND WORST PERFORMING SHARES

SHARE	WEEK PRICE (c)	CHANGE (%)
BEST	650	172.0
Sable Metals	28	64.71
Chrometco	15	36.36
Wearne	13	30.00
Randgold & Exploration	201	19.64
Rare Holdings	260	18.18
WORST		
RBA Holdings	115	-20.69
Lonmin	582	-18.60
Buildmax	18	-18.18
Renergen	1300	-17.72
Cargo	1250	-16.67

INDICES

INDEX	WEEK VALUE	CHANGE (%)
JSE All Share	52 880.15	-0.34
JSE Financial 15	16 611.59	1.90
JSE Industrial 25	70 804.42	-0.15
JSE Resource 10	34 604.68	-5.69
JSE SA Listed Property	656.83	3.04
JSE Top 40	47 410.34	-0.42
CAC 40	467 381	1.41
DAXX	1 016 431	1.31
FTSE 100	634 513	1.20
Hang Seng	2 298 922	2.45
Nasdaq Composite	488 097	2.05
NIKKEI 225	1 820 715	1.77
S&P 500	203 077	1.83

P/E RANKING

SHARE	FORECAST
Basil Read	4.27
Kumba Iron Ore	5.84
Merafe	5.92
M&R Holdings	5.97
Lewis	6.35
Aveng	6.36
Raubex	7.38
Octodec	7.74
Barloworld	8.61
Reinet	8.73

EPS RANKING

SHARE	FORECAST (C)
Naspers-N-	4291.00
BAT	3994.00
Sasol	3955.00
SABMiller	2879.00
Capitec	2726.00
Nedbank	2272.00
Bidvest	2103.00
Mondi Ltd	1947.00
Astral	1909.00
Tiger Brands	1833.00

DIVIDEND RANKING

SHARE	F'CAST DPS (C)	F'CAST DY (%)
DRD Gold	37	15.2
Rebosis	109	9.7
Lewis	528	8.5
Anglo American	1058	8.3
Emira	146	8.1
Accprop	54	8.1
Fortressa	129	8.0
Vukile	148	7.8
Coronation	510	7.5
Octodec	192	7.4

Niël Pretorius
CEO of DRDGOLD

LON

SHAREH

COUGH UP A

BEE PARTNERS G

FREE RIDE

Despite receiving over R1bn in dividends, advanced dividends and other loans, Lonmin's BEE partner Shanduka is yet to repay a cent of the £200m (R2.3bn at the time) loan it was granted by Lonmin in 2010 to buy its stake in the platinum miner.

Marcia Klein investigates.

MIN OLDERS AS GET

Lonmin's BEE deal with deputy president Cyril Ramaphosa's Shanduka group, which was struck in 2010, is in jeopardy as Shanduka has failed to meet the five-year deadline to repay its loan.

In fact, Shanduka has not repaid any of the £200m (just over $300m or R2.3bn at the time) loan despite receiving, in addition to that loan, ordinary dividends, advanced dividends and a preference share subscription, together totalling around R1.25bn during the five years.

At the September 2014 year-end, Shanduka owed Lonmin $417m (R4.58bn at exchange rates at the time, but R5.5bn now, due to the rand's devaluation). At the time of going to print, the heavily indebted Lonmin, which announced in July that it would cut 6 000 jobs in an attempt to cut costs and preserve cash, had a market capitalisation of R3.4bn. It announced on 21 October that it will raise $400m (R5.36bn) in new equity in November, also dwarfing its current market capitalisation, and agreed to new debt facilities totalling $370m that mature in 2020. This is Lonmin's second capital-raising in three years. It went cap in hand to shareholders for a $817m bailout in December 2012 to strengthen its balance sheet following the deadly strike at Marikana (see sidebar on page 26).

The Shanduka debt arises from a deal in mid-2010 where Shanduka acquired 50.03% of Incwala Resources – which owns 18% of Western Platinum, 18% of Eastern Platinum and 26% of Akanani – giving Shanduka an effective 9% stake in Lonmin.

Shanduka's investment was facilitated by the R2.3bn loan raised by Lonmin – and a R300m equity injection by Shanduka.

Since then, Lonmin has made several dividend payments, advanced dividend payments and loans both to Shanduka and Incwala. Shanduka has not repaid any of the money to date, while Lonmin has recorded an $80m impairment on the loan so far. There may be more when it releases 2015 financials on 9 November. The advanced dividends were paid in years in which Lonmin did not declare dividends, presumably to facilitate the payment of interest and the repayment of the loan.

Cyril Ramaphosa
Deputy president & Shanduka founder

Lonmin spokesperson Sue Vey confirmed that advanced dividends paid to Incwala have been R1.13bn to date, including R228m in the 2015 financial year. She also confirmed that no other shareholder has been given advanced dividends.

The loans to Shanduka to date include the £200m (R2.3bn) original loan in 2010 and a R175.5m preference share subscription by Lonmin in Lexshell 806 in 2011.

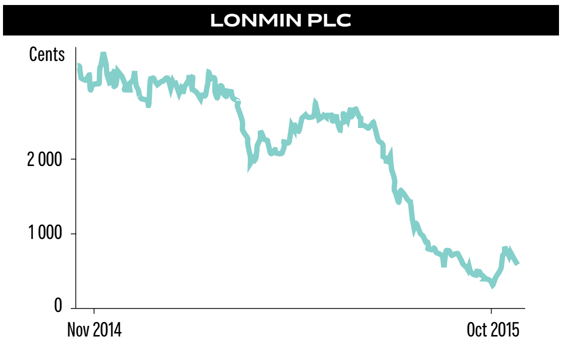
Ramaphosa may, conveniently, be off the hook as Shanduka's investment in Lonmin now sits in the merged Pembani/Shanduka group after Ramaphosa became deputy president and offloaded most of his investments.

Loans to Incwala of R510m include R80m in 2011, R110m in September 2013, R160m in March 2014 and R160m to service its funding requirements in 2013.

Dividend payments

Lonmin also declared ordinary dividends in 2010 and 2011, including two to non-controlling shareholders to "reflect the minimum payment required to enable Incwala to service its loan facilities". Shanduka's share of these dividends is not disclosed specifically, but it can be assumed it got just over half of the $22m (R157m at exchange rates at the time) normal dividend declared to these shareholders in 2010 and half the $48m (R360m at exchange rates at the time) dividend declared to these shareholders in 2011. Shanduka's loans, dividends and advanced dividends therefore total R3.52bn against its original loan of R2.3bn.

The amount it owes Lonmin, however, is much higher than that, taking into account exchange rates (the loan is in British pounds), interest and other factors. The original loan had an interest rate of 4.4% a year, compounded quarterly, bringing it to £248m by the end of the loan period, or just over R5bn at current exchange rates.



SOURCE: Bloomberg

Ramaphosa may, conveniently, be off the hook as Shanduka's investment in Lonmin now sits in the merged Pembani/Shanduka group after Ramaphosa became deputy president and offloaded most of his investments via a merger with Pembani. Pembani is controlled by Ramaphosa's long-time colleague at MTN, Phuthuma Nhleko. Nhleko was CEO while Ramaphosa was chair. Both had significant investments in MTN, and Shanduka was involved in a controversial, related party deal to buy a stake in MTN Nigeria.

Charlene Nyembe, business executive in the office of the CEO at Pembani, said in an emailed response to detailed questions: "Please note that the Pembani Group is a private and unlisted investment holding group and has a policy not to comment on market speculation."

Vey would not be drawn on the options Lonmin was exploring other than to say that "this is currently under discussion given the Shanduka/Pembani merger".

BEE problems

But as the payback period has expired, Lonmin's options are few and unappealing. It seems likely it will either have to renegotiate the loan or ditch its BEE deal with Shanduka. It has already impaired some of the loan, but may be forced to impair more or write it off. Pembani/Shanduka may be looking at selling its stake – an option that will be difficult to implement given the

Pembani is controlled by Phuthuma Nhleko, one of deputy president Cyril Ramaphosa's long-term colleagues at MTN.

IT OWNS:

Engen **(20%)**
BHP Billiton Energy Coal South Africa **(6%)**
Exxaro Resources **(1%)**

IT HAS CONTROLLING STAKES IN:

Pembani Coal Carolina
Afric Oil
AfriSam

SINCE THE MERGER WITH SHANDUKA, IT ALSO OWNS:

Pan African Resources **(24%)**
Attacq **(1.25%)**
Standard bank **(1%)**
Alexander Forbes **(7.5%)**
Liberty **(1.44%)**
Bidvest **(0.5%)**
MTN **(0.45%)**
Macsteel South Africa **(7.5%)**
Seacom **(12.5%)**
Shanduka Coal **(50.01%)**
Incwala **(50.03%)**
Zebediela Platinum Exploration **(100%)**
Lace Diamonds **(13%)**
Mondi Shanduka Newsprint **(42%)**
Scaw Metals **(5%)**
Coca-Cola Shanduka Beverages **(70%)**
Aggreko Power JV Mozambique **(30%)**
Noblesfontein Wind Power **(25%)**
Helios Towers Nigeria **(9.22%)**
MTN Nigeria **(2.71%)**
TBWA SA **(9.5%)**
Matrix Marketing **(21.28%)**
OMG SA **(11.8%)**

Phuthuma Nhleko
Founding member of Pembani

Charlene Nyembe
Business executive in the office of the CEO at Pembani

The merger between Shanduka and Pembani was originally announced as a R13.5bn tie-up, but later it was pared down to R11bn. The value of Shanduka's listed investments alone were over R9bn around the time the merger was announced although, as evidenced by the Lonmin investment, this does not take debt into account.

According to the Competition Tribunal ruling on the merger, Shanduka will retain only its "100% shareholding" in McDonald's South Africa post-merger, although Shanduka has previously said it only owned 70%, and its website still shows that it owns 70%.

current state of the platinum mining industry. Lonmin may ultimately find itself looking for new BEE partners, and not for the first time.

Lonmin has only recently managed to bring its BEE shareholding from 18% up to the required 26%. In 2014 it concluded a further BEE deal with Bapo ba Mogale, an employee share ownership scheme and a community share ownership trust.

The Bapo ba Mogale deal includes a royalty for equity swap and Bapo ba Mogale's sale of its 7.5% of the Pandora joint venture to a Lonmin subsidiary. This gives Bapo ba Mogale 2.25% of Lonmin, a deferred royalty payment of R20m a year over five years and procurement spend of R200m over 18 months. A committee of disgruntled community members has since gone to court to ask for a review of the transaction, arguing that there was a lack of transparency and community engagement when the deal was negotiated and signed.

Lonmin's major BEE shareholder remains Incwala. Apart from Shanduka, Incwala's other investors include the Industrial Development Corporation (23.56%), the Bapo ba Mogale community (2.85%) and a Lonmin subsidiary (23.56%).

But Incwala itself has been in difficulty before. Shanduka came in in May 2010 as a heavyweight white knight to buy 50.03% of Incwala from a number of parties including the Thelo Consortium, Vantage Consortium and Dema Capital (which had invested in Lonmin in 2004) following the 2009 announcement of Lonmin's first-ever interim loss as the platinum price halved.

Of the £200m loaned to Shanduka, £96m was used to buy Thelo and Vantage's interests. The recipients included Thelo CEO Ronnie Ntuli, who is best known for his involvement in Andisa Capital and the National Empowerment Fund. More recently, he was also in the news for the 2013 sale, together with fellow Comair director Atul Gupta of Comair shares, worth R86m.

Vantage Consortium is headed by **Mutle Mogase,** who was involved in the financial services charter and the formation of Real Africa Investments Limited. He was chairman of African Bank Investments Limited at the time of its demise. Incwala directors included Mogase, Ntuli, Albert Jameson, Ufikile Khumalo (formerly IDC, then with Scaw Metals), Dawn Marole (deputy CEO Fabcost Investment Holdings, human resources director African Bank Investments Limited and chairperson at Dema), Mahomed Seedat (former president of Lonmin South Africa) and Kugan Thaver (IDC).

Mutle Mogase
Executive Chairman of Vantage Consortium

Pembani would not answer questions on what was happening with the deal and the loan, whether it knew of the debt before the merger with Shanduka or why none of the loan has been repaid. The merger with Shanduka brought, according to Shanduka's stated net asset value at the time, about R8bn of assets into the merged group, although a tally of Shanduka's listed assets at the time implied it was worth more. Pembani would not answer why it would conclude the merger considering that just one of the numerous assets it acquired had debt of over R5bn, representing a huge number relative to the assets it picked up. ■

At the September 2014 year-end, Shanduka owed Lonmin $417m (R4.58bn at exchange rates at the time, but

R5.5bn

now, due to the rand's devaluation).

LONMIN'S FINANCIAL TROUBLES

Lonmin's share price hit a record low of R3.12 in September and is down over 80% since the start of the year as the market expected the need for another equity-raising in order to shore up its balance sheet.

The platinum miner announced on 21 October that it will raise another $400m in equity and that its banks agreed to new debt facilities totalling $370m that mature in 2020, provided the equity raising is successful.

The Public Investment Corporation (PIC), which owns about 7% of Lonmin, has indicated its support for the rights issue, and may take up more than its entitlement subject to approvals, Lonmin said. In return, Lonmin and the PIC will work with government and the unions to minimise job losses, it said.

Lonmin, which announced 6 000 possible job cuts in July, said this process will go ahead at a cost of R800m. The restructuring is expected to be completed by September 2016.

The group has made progress in paying off debt in the past six months, with its net debt declining from $282m at the end of March to $185m at the end of September (September 2014: $29m).

The newly-announced equity-raising is Lonmin's third in six years. The platinum miner raised $817m in equity from investors in December 2012 after violent strikes halted its operations near Rustenburg in August and led to police killing 34 strikers at its Marikana mine. Ramaphosa, who was chairman of Incwala, and a Lonmin board member at the time, came under fire for his role in urging government and the police to break up the unprotected, violent strike. Ten people were killed in the run-up to the police massacre on 16 August 2012.

The company was also forced to raise $457m in equity from investors and the refinancing of $575m in debt in 2009, when it announced 7 000 job cuts as part of a restructuring plan. Lonmin's share price hit an all-time high of R282.47 in June 2007.

Its share price has been volatile in recent weeks, buoyed somewhat by successful deals in the sector (Sibanye's purchase of Aquarius and Anglo American Platinum's Rustenburg operations), and a successful equity-raising by Impala Platinum) and a successful capital-raising of about R4bn on 7 October by Impala Platinum.

Glencore, which owned 23.9% of Lonmin as a result of its 2013 takeover of Xstrata and appointed two members to the board in an attempt to strengthen the company, transferred this stake to its shareholders in June after it failed to find a buyer. ■

IS PLATINUM HITTING THE BOTTOM?

By David McKay

don't look now, but South Africa's platinum sector may have just put the worst behind it.

That's the view of market experts who point to the recent direction of important platinum shares such as Anglo American Platinum (Amplats) and Impala Platinum (Implats). Sibanye Gold's recent R4bn bid for Aquarius Platinum is another signal.

"Sibanye may have [...] rung the bell at the bottom of the commodity cycle," said John Biccard, a portfolio manager for Investec Asset Management.

Biccard, who was defending his company's view that Sibanye's offer was opportunistic, said: "Shareholders should be careful not to give away Aquarius at the bottom of the cycle.

"Investors should not be looking at the 100% premium to the 12-month low being offered [by Sibanye], but rather focus on the fact that Sibanye is buying two quality assets at 4% of their 10-year high valuation."

Vote of confidence

Other corporate action, including the sale of the Everest mine by Aquarius to Northam Platinum, and Sibanye's R4.5bn offer for the Rustenburg mines of Amplats, also pointed towards a bottoming out of the market, said Kane Slutzkin, an analyst for UBS.

"The recent increase in M&A activity could signal a 'bottom' for the PGM [platinum group metal] industry," Slutzkin said. "The recent fall in the PGM basket would suggest prices are close to a trough."

"However, despite unsustainably low prices, we calculate that the [above-ground platinum stocks] continue to discount materially higher prices – $300 to $400 per ounce above spot – which will likely take some time longer to materialise," he added. Platinum shares have been on the retreat for at least five years. Shares in Amplats are 59% lower over that time whilst Implats is 76% lower, far in excess of the actual platinum price which is some 45% lower since the beginning of 2011.

In terms of stock selections, UBS said it preferred Implats and Royal Bafokeng Platinum (RBPlat).

Prices and profitability

Allan Cooke and Abhishek Tiwari, analysts for JP Morgan Cazenove, said in a recent report that the decline in platinum prices had made the majority of platinum production in SA unprofitable.

"At spot metal prices, we estimate about 65% of the platinum industry is loss-making at an operating level. This is unsustainable in the medium to longer term, in our view, and we remain convinced that PGM prices must improve to reflect the economics of mine supply," they said in the report.

> "About 65% of the platinum industry is loss-making at an operating level. This is unsustainable."

At the time of the report, published on 7 October, the platinum price had fallen to about $900/oz, but it has since improved some $100/oz at the time of writing.

Until prices recovered, Cooke and Tiwari recommended "a cautious investment approach" in which investors sought exposure to companies that had the ability to reduce their exposure to labour cost inflation; namely Amplats, owing to its ability to mechanise the bulk of output over time.

"We expect Amplats, Northam, RBPlat and Aquarius to outperform the JSE Platinum Index and the rand PGM basket on a 12-month view," the authors said.

The level of platinum inventories or stock levels would also have a bearing on the speed at which the industry recovered.

Driving supply

A number of new projects, such as those planned by Wesizwe Platinum, IvanPlats and Platinum Group Metals, a Toronto-listed firm, would also take longer to develop than perhaps first anticipated. "More production would be taken off than will be supplied," said Andries Rossouw, assurance partner at PwC.

It's not all a one-way recovery, however.

Words of warning were issued by UBS and Goldman Sachs, who said the Volkswagen scandal, in which the automaker cheated on emission standards, could negatively affect diesel engine manufacturing which would, in turn, affect the use of platinum in related autocatalysis. Eugene King of Goldman Sachs said the bank had cut its platinum forecasts in response to the controversy. "We believe that this will accelerate the shift from diesel to gasoline – a negative for platinum," he said.

"Although palladium could be a net beneficiary from this switch, we also reduce our palladium forecasts on lower China auto forecasts. We downgrade Amplats to sell from neutral while Impala moves from buy to neutral," he explained. ■

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AMCU to usurp NUM?

By Jan de Lange

don't be surprised if the once mighty National Union of Mineworkers (NUM) collapses completely within the next six months in its life-and-death struggle against the Association of Mineworkers and Construction Union (Amcu).

Amcu is using a well-planned strategy to launch a strike at gold mines that could be just as effective as last year's debilitating and crippling strike in the platinum mining industry. The trade union will probably call the strike early next year, but the longer it delays the strike, the better, as it will have more time to lure away more NUM members.

NUM has fallen on hard times. There has never been so much discord and strife during wage talks as the union experienced over the past four months of negotiations with the Chamber of Mines' gold mine members.

The sacking of Frans Baleni, former general secretary, four weeks before the start of the wage negotiations, came as a major surprise to the whole trade-union movement.

His successor, David Sipunzi, didn't have an opportunity to consolidate his position in the trade union before the negotiations kicked off with the Chamber of Mines. He was clearly uncertain and insecure during the negotiations. NUM's caucus eventually took a full three weeks to get a mandate to accept the "final" offer for wage increases made by the chamber's gold mining members on 2 October.

Frans Baleni
Former general secretary of NUM

David Sipunzi
Current general secretary of NUM

Jeff Mphahlele
General secretary of Amcu

It almost came to blows

"In 20 years, I've never been part of such an unpleasant caucus. We almost came to blows," a prominent member of NUM's negotiating team said about one of the last meetings before the chamber's offer was accepted on 2 October.

The offer includes increases of between R600 and R800 a month at the three largest gold producers – AngloGold Ashanti, Sibanye Gold and Harmony Gold – backdated to 1 July this year, and new increases that will come into effect every year in July for two years thereafter.

It was the first time that the negotiations were not held at the Chamber of Mines, but at the Birchwood Conference Centre in Boksburg – at the insistence of Amcu. While the agreement was being signed with two of the gold mining companies – AngloGold and Harmony – there were great shouts of joy in another room where mediators of the Commission for Conciliation, Mediation and Arbitration (CCMA) made desperate attempts to convince Amcu to accept the offer.

It was the CCMA that issued a certificate of non-resolution (better known as a strike certificate) to Amcu.

The Amcu caucus was jubilant.

A week later, on Sunday, 11 October, the trade union held a mass gathering in the Sibanye sport stadium at the Driefontein mine near Carletonville. There were many reports that "only" about 5 000 miners attended the meeting, but Amcu had hired 200 buses, which each transported 65 passengers from other mines to the venue. The buses were all full – about 13 000 people in total.

With a show of hands, they all voted in favour of a strike. This is a contentious way of decision-making and somewhat misleading if you are not familiar with this manner of doing things.

In the week prior to the gathering, meetings were held in the working places and even in the fire safety areas and working faces to decide on a possible strike. This is why the timing and other logistics of the strike were discussed at the mass meeting and why there were hardly any dissentient votes. The speakers at the meetings were also mostly branch or team leaders.

Only next year

Amcu president, Joseph Mathunjwa, told the workers at the Driefontein meeting that the strike would not be called immediately, but only when a verdict has been returned on Amcu's appeal against a court ruling in the previous gold mining negotiations in 2013. The previous wage agreement was also reached with NUM and then extended to Amcu at all the mining companies.

Mathunjwa believes that it will be better to call the strike next year, especially if it turns out to be a drawn-out affair like the strike on the platinum mines. It would in fact be disastrous to be on strike in December.

In 2013, Amcu represented only 19% of the workers on the gold mines, but it was the majority trade union at the industry's most profitable mines: Sibanye's Driefontein, Harmony's Kusasalethu and AngloGold's Mponeng.

Despite this, the Chamber of Mines closed a deal with NUM, which at that stage represented more than 60% of the workers on the gold mines, and extended it to Amcu's members. Amcu challenged the legality of this step and wanted to call a strike, but the chamber obtained a court order that upheld the validity of the extended wage agreement with NUM.

In 2013, Amcu represented only

19%

of the workers on the gold mines, but it was the majority trade union at the industry's most profitable mines: Sibanye's Driefontein, Harmony's Kusasalethu and AngloGold's Mponeng.


Driefontein


Kusasalethu


Mponeng

The offer includes increases of between

R600 AND R800

a month at the three largest gold producers – AngloGold Ashanti, Sibanye Gold and Harmony Gold.


Joseph Mathunjwa
President of Amcu

MUJAHID SAFODIEN / AFP

Amcu appealed against this particular court order, and the appeal was heard on 21 August and judgment is expected soon. At the moment, Amcu represents 31% of the approximately 100 000 workers on gold mines and NUM 53%. Amcu contends that the right to extend a wage agreement limits its right to strike. Should the labour appeal court agree with this, it will affect the cornerstone of collective bargaining in our labour system.

But should Amcu lose, the case will undoubtedly be referred to the Constitutional Court, as Mathunjwa promised at the mass gathering at Driefontein. "It cannot be right that an agreement with another trade union has precedence over our right to strike," he said.

But he is not going to expose Amcu members to an unprotected strike. The wage dispute could, therefore, continue until the highest court reaches a verdict in this regard, maybe even in a year's time.

At Sibanye Gold, the NUM represents 43% of the workforce and Amcu 42%. The NUM accepted Sibanye's offer, but because the NUM represents less than 50% of the workers, the agreement cannot be extended to minorities. This is why Sibanye made its offer subject to it being accepted by both trade unions.

Amcu could therefore immediately call a protected strike at Sibanye, but is not going to do so, not before it has finality that it can also strike at AngloGold and Harmony.

Different wages, same work

Sibanye finds itself in a difficult situation regarding its acquisition of Anglo American Platinum's Rustenburg mines. The hefty pay hike agreed upon in the platinum strike settlement in Rustenburg last year means that workers would probably reach the basic wage of R12 500 a month – the so-called Marikana wage – during the next wage negotiations end June 2016.

But at Sibanye Gold in Carletonville, rock-drillers – a core group of workers in underground mines and the drivers behind the 2012 platinum strikes – will be earning a basic wage of only R8 660 a month in July 2016.

Amcu had only about 15 000 members before the Marikana massacre in 2012. Today it has 130 000 paid-up members. This is in line with its growth at the expense of NUM.

Jeff Mphahlele, Amcu's general secretary, reckons that once all the debit orders waiting to be completed at employers have been dealt with, Amcu would have about 190 000 members.

Shortly before the Marikana massacre, NUM had 290 000 members. According to its latest figures, it now has 230 000 paid-up members. However, Amcu's growth, which is confirmed by last year's strike and the chamber's own figures at gold mines, shows that NUM probably has far fewer members. There is clearly serious dissension in NUM regarding the wage agreement. For Amcu it's a perfect opportunity to become the biggest trade union in the gold mining industry. ■

editorial@finweek.co.za

By Liesl Peyper

MONEY'S TOO TIGHT TO MENTION

Minister of finance Nhlanhla Nene had the unenviable task this week of making do with less and trying to keep South Africa functioning with a funding shortfall due to a higher-than-expected raise in salaries for public servants.

"Serene calm on the surface, but furious paddling below."

This is how Peter Attard Montalto, economist and strategist at the Japanese investment bank Nomura, described the National Treasury's attempts to balance weak economic growth with tight fiscal and monetary policy instruments while fending off possible credit rate downgrades from rating agencies.

On Wednesday, 21 October, finance minister Nhlanla Nene continued to hold the conservative stance he had taken during last year's Medium-Term Budget Policy Statement (MTBPS) and the February Budget Speech.

"If you find this [speech] boring, it's for a very good reason. We're presenting this medium-term budget in a very challenging global sentiment and we must also be honest about our challenges we need to overcome," Nene told a media briefing ahead of his second medium-term budget statement.

Nhlanhla Nene
Minister of finance

"[The] only thing that could stave off a downgrade from Fitch in December is a budget that is much more focused on reining in debt to GDP than was the case in the February budget."

Large public wage bill

He singled out the higher-than-expected settlement on public wages – a 10.1% increase in salaries and benefits – as the biggest factor that is putting pressure on public finances. This means that government's aggregate spending will remain the same, while national, provincial and local governments need to be very frugal in their spending over the next three years.

"The shortfall in compensation budgets has significant consequences for the public finances. It's absorbing resources

that had been set aside for other priorities," Nene said in his statement.

The above-inflation wage increase also means that no government posts can be filled in the next three years, as government had to dip into its contingency reserves to fund the shortfall.

The wage settlement crowds out other responsibilities, said Nene. "And an increase in headcounts was the first casualty – no vacancies will be filled."

Nene issued a stern warning, though: "Without corresponding improvements in the quality of public services, increases of this kind are not sustainable over the long term."

Christie Viljoen, economist at NKC African Economics, said there wasn't much government could do to curb the wage increases. "Cutting personnel costs is simply not an option. The ANC and Cosatu regard the public sector as the job creator through government's extended public works programme and that's not about to change."

But is it sustainable? "We've got so used to it," said Viljoen. "It's been the case for the past 20 years and it will continue. It just means there is less money for the upkeep of roads and infrastructure – especially in rural areas."

Keeping the rating agencies at bay

In his speech, Nene announced that the budget deficit would fall to 3% of GDP over the medium term thanks to revenue growth that will "outpace spending growth".

He said the increases in income taxes and the fuel levy announced in his February Budget Speech will help sustain revenue over the short term, but growth in income tax is expected to be subdued in the next financial year.

South Africa's net debt is expected to stabilise at 45.7% of GDP in the 2019/20 financial year. This, he believed, will put the country on a more sustainable fiscal path. But will this be enough for SA to retain its investment grade rating?

In its most recent credit opinion on SA, Moody's said as a consequence of the higher wage increases than provided for, cuts needed to be made elsewhere. "The public sector wage bill will therefore continue being the Achilles heel of fiscal consolidation efforts," said Kristin Lindow, the agency's senior vice-president. "This could potentially constrain financial resources available for crucial infrastructure expansion."

Nazmeera Moola, economist and strategist at Investec Asset Management, said in a company note that although Moody's and S&P might retain SA's ratings for now, it won't necessarily satisfy others. "[The] only thing that could stave off a downgrade from Fitch in December is a budget that is much more focused on reining in debt to GDP than was the case in the February budget." But Nene said he didn't expect a credit downgrade. "We've managed to stabilise debt and sustain costs through fiscal consolidation. I cannot speak on behalf of the ratings agencies, but I do believe it's unlikely." ■

the budget deficit would fall to **3%** of GDP over the medium term thanks to revenue growth that will "outpace spending growth".

MINI BUDGET AT A GLANCE

THE GOOD

For the next three years government has set aside the following funds for infrastructure and technology improvements:

- R4.8bn for upgrades and maintenance of national and provincial roads
- R1.4bn for provincial public transport
- R1bn for broadband infrastructure
- R300m for the Gauteng Freeway Project to compensate for the lower toll tariffs

Small businesses will receive a welcome cash injection:

- R24bn in tax incentives
- R16bn in direct funding for industrialisation

Government's cost containment measures are bearing fruit:

- 3% saving in spending on consultants
- 6% decrease in travel and subsistence
- 47% drop in catering, entertainment and events expenses

THE BAD

South Africa's contingency reserves have been wiped out due to the higher-than-expected salary increases in the public sector.

- 2015/16: dropped from R5bn to R0
- 2016/17: dropped from R15bn to R2.5bn
- 2017/18: dropped from R45bn to R9bn

National debt as a share of GDP is expected to reach 45.7% in 2018/19 due to slower GDP growth, shortfall in revenue and a weaker exchange rate.

THE UNSAID

Nene kept mum on the following burning issues:

- How government plans to increase spending at universities, following the bout of protests at tertiary institutions over tuition fees.
- Which other non-strategic assets will be sold to keep state-owned companies afloat. (Government received R25.4bn for the sale of Vodacom shares of which R23bn was used to give a capital injection to Eskom.)
- How government plans to fund the highly contentious nuclear build programme.

BY THE NUMBERS

- Total spending over the next three years: R4.7tr
- Public sector infrastructure spending: R800bn
- Economic growth forecasts:
  2015: 1.5%
  2016: 1.7%
  2017: 2.6%
- R2bn allocation to the Brics Development Bank (funded from the sale of Vodacom shares valued at R25.4bn)

"MUST-HAVES"

TAXING TIMES

Nene didn't announce any changes to the tax system in his mini budget, but left the matter open to be dealt with in next year's Budget Speech. He referred to the Davis Tax Commission's recommendations, which will be considered ahead of next year's Budget Speech.

There were hints, however, that government is looking at ways to deal with leakages in corporate income tax and that a VAT increase is "an option" over the medium term.

Nene said he also asked for further advice on wealth taxes.

However, chances of another increase in personal income tax are slim, says Christie Viljoen, economist at NKC African Economics. "The increase that was implemented this year was the first in 25 years. I think an increase in VAT – from 14% to 15% – is far more likely for the next financial year. The Davis Tax Commission also said in its report that a VAT increase would be the least disruptive option." ■

> "I think an increase in VAT – from 14% to
> 15%
> – is far more likely for the next financial year."

editorial@finweek.co.za

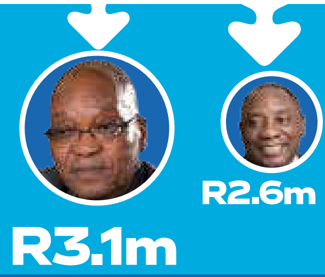
What is the Medium-Term Budget Policy Statement

Every year towards the end of October, the finance minister gives a three-year projection of South Africa's spending. Also called the mini budget, it is basically a halfway mark in the financial year where the nation receives updates on spending and revenue collection. It is very seldom a platform for the announcements of big policy changes, but it can be an indication of what is to be expected in the February Budget Speech next year. ■

There are some non-negotiable expenses where finance minister Nhlanhla Nene's hands are tied:

Jacob Zuma
President

Cyril Ramaphosa
Deputy president



Presidency's salaries for 2015/16 financial year:
- President Jacob Zuma's salary = R3.1m
- Deputy president Cyril Ramaphosa = R2.6m

But there's more: By the 2017/18 financial year, administration costs in the presidency will set the taxpayer back by almost R100m in travel, subsistence and salary expenses.

Public sector wage bill:
- Salaries for government employees are increasing to

R467bn

over the 2015 medium-term framework. The three-year wage deal signed earlier this year accounts for an extra R61bn.

The final settlement increases the salaries and benefits of public servants by 10.1% in the current year, followed by improvements that will be at least two percentage points higher than consumer inflation in the next two years.

Social grants:
Allowances to poor households, including the elderly, children, war veterans and people with disabilities will increase by

R13bn

over the next three years. Approximately 18.1m South Africans will receive social grants by then.

The culprits
The budgets allocated to the departments of basic education, health and human settlements account for more than

R100bn,

yet taxpayers don't necessarily get bang for the buck. Last year's annual report showed that these three departments were among others who failed their audits.

The wish list
The biggest and most idealistic item on government's wish list is the National Health Insurance (NHI), which is expected to cost a hefty

R250bn

over the next decade or so. At the ANC's recent conference it insisted that an NHI be speedily implemented, but there are serious constraints. The department of health underspent R305m on its NHI programme in the 2014/15 financial year. Nene said a white paper, which will propose a financial model, will be published by the end of the 2015/16 financial year.

New series
Part 1

Trade stocks at a click

To assist investors who consider online share-trading, *finweek* will run a three-part comparative series in which we will compare nine platforms that offer such services to private investors. This week we look at Absa, Sharenet and IG's trading platforms.

Compiled by Buhle Ndweni and Lameez Omarjee

Online share-trading platforms allow private investors to handle their own trades – a handy tool for those who like to keep an eye on the market and get closer to real-time trading. Although the information investors receive on most of these platforms isn't updated minute-by-minute, they certainly bring investors closer to the action by removing the need for instructing brokers to execute trades on their behalf.

This series will look at and compare the costs involved for the different platforms, the investment options they offer, and the requirements for opening an account.

Be sure to catch the next two issues for a complete guide to all nine platforms.

Absa

1. COST

Smart account: Brokerage rate of 0.4% and minimum investment of R120. The admin fee of R66.67/month is waived for the remainder of the year once you have completed five trades.

Tax-free savings account (TFSA): Brokerage rate of 0.2%, no minimum or admin fee.

Exchange-traded fund (ETF): Brokerage rate of 0.2% and minimum investment of R20.

Brokerage rate of
0.4%
Minimum investment of
R120

2. THE RANGE OF PRODUCTS TO INVEST IN

Securities listed on JSE limited.

3. CAN YOU INVEST DIRECTLY OFFSHORE?

We will be introducing offshore trading towards the end of the year. This platform will ensure our clients have exposure to over 28 countries and nine exchanges.

4. DO YOU OFFER LIMIT ORDERS THAT ALLOW BUYING AT A SPECIFIC PRICE, AND/OR MARKET ORDERS THAT ALLOW BUYING AT THE BEST PRICE AVAILABLE?

We offer both, however, market orders are only available on the top 40 shares trading on the JSE.

5. INFORMATION AVAILABLE TO USERS

Analyst reports:
All information that is made available to users is provided free of charge. The absastockbrokers.co.za website provides daily and weekly market reports to all visitors to the site free of charge.

Amongst the reports are the daily 'Market Monocle' report on local and international markets, a weekly ETF report, a weekly listed property market report and a weekly preference share market report.

Online education:
There is also a 'Share of the week' report that provides some research and a recommendation on a highlighted company. The focus of the website is on creating smarter and better investors and the 'Smart Investor TV' section presents various videos on investor education. The 'Better Investor' section provides a how-to guide for novice investors as well as a more advanced educational section for the seasoned investor.

Historical financial data:
Company information is available post-logon and includes a complete company overview as well as historical financial information and consensus earnings forecasts. Users can also chart individual shares, ETFs and other locally-listed instruments.

Other online tools help users to build watch lists (in addition to a number of default watch lists such as the Top40 Index constituents) and compare investment performances across ETFs. The site also offers the Sens news service as well as other spot company news of the day.

Sharenet

1. COST

Sharenet Securities:

- 0.3% flat brokerage rate;
- R100 minimum investment;
- R200 per quarter unless three trades are executed in which case you don't pay the R200; and
- Strate, Investor Protection Levy, Securities Transferred Tax (STT) and VAT as charged at the JSE level.

Sharenet CFDs:

- 0.2% brokerage for share Contract For Differences (a type of financial derivative)
- R100 minimum for share CFDs
- Eight to 10 points per standard Top40 contract; and
- 12 to 14 points per mini/micro contract.

2. THE RANGE OF PRODUCTS TO INVEST IN

Sharenet Securities:
All JSE listed instruments such as equities, warrants, ETFs, etc.

Sharenet CFDs:
Available on the Domestic Platform based on:
• South Africa 40
• ETFs and exchange-traded commodities (ETCs)
• JSE Shares

Available on the International Platform:
• 36 different stock indices
• Forex
• Bitcoin
• Commodities
• Bonds and money market
• ETFs, ETCs and trackers
• Shares from 23 different Indices
• 10 different binaries

3. CAN YOU INVEST DIRECTLY OFFSHORE?

No.

4. DO YOU OFFER LIMIT ORDERS THAT ALLOW BUYING AT A SPECIFIC PRICE, AND/OR MARKET ORDERS THAT ALLOW BUYING AT THE BEST PRICE AVAILABLE?

Sharenet Securities and CFDs: Both limit and market orders *as well as* stop loss and trailing stop loss orders.

5. INFORMATION AVAILABLE TO USERS

Analyst reports:
Sharenet provides analyst reports through PowerStocks Research, an investment research house that delivers its findings in an easy and simple manner. It helps to invest in shares based on back tested mechanical stock-picking strategies optimised for trading on the JSE.
PowerStocks also provides long-, medium- and short-term mechanical market timing to enable clients to significantly reduce their risks and boost performance. Using mechanised strategies to build and time your own portfolios, it is our opinion that the private investor can achieve substantial risk-adjusted returns in excess of the All Share Index and most funds.

Free for Sharenet Premium and Premium Plus subscribers. Otherwise the cost is

R199/

month.

6. TIME DELAYS ON SHARE PRICES

For accounts that are in practise mode there is a 15-minute delay. For accounts that have no funds or shares to sell, there is also a 15-minute delay.

7. DO YOU OFFER A LIVE FEED AT AN ADDITIONAL COST?

No.

8. DO YOU OFFER A TRIAL RUN BEFORE SIGNING UP?

It is possible, as mentioned; we have a practise account that is available to our clients before they open the account. The practise account has simulated funds so that clients are able to place orders as if they are really trading. Clients are allocated R100 000 in each practise account.

9. TO SIGN UP AS A CLIENT, YOU NEED TO:

Register online and accept the terms and conditions.

Fica – Individual
1. Certified copy of your ID
2. Certified copy of your proof of residence
3. Proof of banking details
4. Proof of tax number

Fica – Company/trust
As this information varies it is offered once a client completes the application.

10. NUMBER OF USERS OF THE PLATFORM

We have **436 118 visitors** on our platform every month.

11. CONTACT INFORMATION

0860 05 04 03
www.absastockbrokers.co.za
equities@absa.co.za

Costs:
Monthly at R720/month
Six months at R3 954 (R659/month)
One year at just R7 188 (R599/month)

Historical financial data:

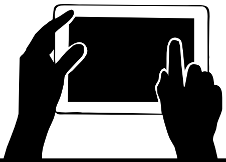
Sharenet Securities:
Available for the JSE only. Free for Sharenet Premium and Premium Plus subscribers. Otherwise the cost is R299/month and includes full company fundamentals, ratios and financial data including broker consensus recommendations and forecasts of earnings per share (EPS), dividend per share (DPS), dividend yield percentage (DY), earnings yield percentage (EY) and price-to-earnings ratio (P/E).

Sharenet CFDs:
No historical data available.

Technical analysis:

Sharenet Securities and CFDs:
Available for the JSE and 14 major currency pairs. It is free for Sharenet Premium and Premium Plus subscribers. Otherwise the cost is R199/month. Sharenet Advanced Charts are one of the most advanced online chart systems in the world. There are over 100 technical indicators and you can build your own automated strategies. The charts will work on any modern browser and operating system, including on iPads, iPhones, Android/Windows/Linux phones, tablets and computers.

Sharenet CFDs:
Available for all available instruments, while 55 different graph settings and technical indicators are available free. R300/month for Advanced Charts unless four trades are executed, in which case you don't pay the R300.



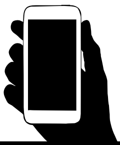
Online education:
Available, beginning with basic investment principles and moving through to advanced topics, the course (authored by a professional asset manager) will systematically guide you towards making sound investment decisions.

Platinum Package – R 7 999
- Comprehensive course material and study guides
- 12-month daily download service
- SIMEX virtual Trading Platform
- Profile JSE Handbook
- Access to online examinations (five exams)
- MarketTracker technical analysis software
- *A to Z Technical Analysis* book or *Technical Analysis for Dummies*

Stock Exchange Course – R 4 999
- Comprehensive course material and study guides
- 12-month mySharenet subscription and SIMEX virtual trading platform
- *Profile's Stock Exchange Handbook* on the JSE
- Access to online examinations (five exams)

Chat forums:
Available free of charge through Sharechat on Sharenet's website or on PowerChat available to PowerStocks subscribers.

There are over
100
technical indicators and you can build your own automated strategies. The charts will work on any modern browser and operating system, including on iPads, iPhones, Android/Windows/Linux phones, tablets and computers.



Mobile access via apps:

Sharenet Securities:
Coming soon.

Sharenet CFDs:
Yes, free.

6. TIME DELAYS ON SHARE PRICES
Sharenet Securities and CFDs:
No time delay.

7. DO YOU OFFER A LIVE FEED AT AN ADDITIONAL COST?
Sharenet Securities:
Yes, R159/month and R 218 for streaming market depth as well

Sharenet CFDs:
R60/month for live share prices

8. DO YOU OFFER A TRIAL RUN BEFORE SIGNING UP?
Sharenet Securities and CFDs:
Yes.

To sign up as a client, you need to submit:
- An original certified copy of your ID
- An original or original certified copy of proof of bank account not older than three months
- An original or original certified copy of proof of address such as a utility bill not older than three months

9. NUMBER OF USERS OF THE PLATFORM
Over **300 active users**/month.

10. CONTACT INFORMATION
021 700 4800 and
support@sharenetsecurities.co.za

IG

1. COST

Commission:
0.2% commission on R100 min. trade size
Overnight interest:
Sabor (South African benchmark overnight rate) +2.5%/365 on long positions
Overnight interest:
Sabor -2.5%/365 on short positions

Level 1: R60 data feeds as per JSE live pricing (waived if one trade is executed per month)
Level 2: R86 for direct market access (DMA)
Charts: R300 Pro Real time charts, offset by four trades/month

For more on IG's charges:
http://www.ig.com/za/our-charges

2. THE RANGE OF PRODUCTS TO INVEST IN

- CFDs on: local shares, international shares, indices, commodities, interest rate futures, spot forex, bonds
- Binary options
- Spread trading
- Partnership agreement with Blackrock to market ETF-based portfolios

3. CAN YOU INVEST DIRECTLY OFFSHORE?

Yes, over 10 000 markets on over

25

exchanges including all the major exchanges.

4. DO YOU OFFER LIMIT ORDERS THAT ALLOW BUYING AT A SPECIFIC PRICE, AND/OR MARKET ORDERS THAT ALLOW BUYING AT THE BEST PRICE AVAILABLE?

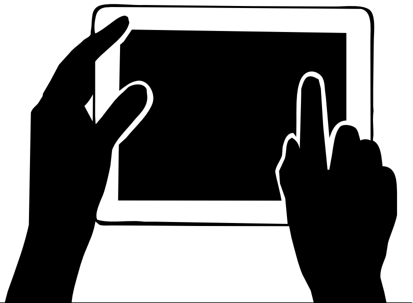
Yes, we offer a full range of risk management features including: limit stops, at market stops, trailing stops and guaranteed stops.

Segregated client money is held entirely separately from IG's own money ensuring that, in the event of default by IG, client funds will be returned to the clients rather than being treated as a recoverable asset by general creditors of IG.

5. INFORMATION AVAILABLE TO USERS

Analyst reports: Yes, we publish several global as well as local analyst reports on a daily basis, available for free on the IG website

Historical financial data:
Five-year financial history of each company available.
Technical analysis: IG publishes free weekly Technical Analysis newsletters on local as well as global markets, and also offers market analysis on its website.



Online education:
Available for free, see below:
- IG TV: Hosts videos and webinars showing Educational, Analytical and Market Insights from local and international experts
- Monthly trading boot camp on web streaming (Learn the basis of trading)
- IG Academy (trading training app)
- Videos on YouTube

Chat forums:
Live Chat on ig.com, Twitter @IGSouthAfrica, LinkedIn, Facebook
Mobile access via apps: IG has apps to trade on every device – including iPhone, iPad, Android, BlackBerry and Windows Phones – which it believes is the widest range in SA.

6. TIME DELAYS ON SHARE PRICES

Live Pricing is available at R60/month as per JSE fees (or the relevant amount for the specific global exchange the client has opted to view). This fee is not charged if one trade per month is executed. All this is fully transparent and automated. If not live, then prices are available at a 15-minute delay.

7. DO YOU OFFER A LIVE FEED AT AN ADDITIONAL COST?

• **Level 1** is available at R60/month as per JSE fees (or the relevant amount for the specific global exchange the client has opted to view). This fee is not charged if one trade per month is executed. All this is fully transparent and automated.
• **Level 2:** R86 for direct market access

8. IS IT POSSIBLE TO USE YOUR PLATFORM FOR A TRIAL RUN BEFORE SIGNING UP?

IG offers a permanent free demo account. Refer to http://www.ig.com/za/demo-account

9. TO SIGN UP AS A CLIENT, YOU NEED TO:

IG is legally obliged to verify client details before activating client trading accounts using Fica. The following is required: proof of identity, proof of address and proof of bank account.

10. NUMBER OF USERS ON THE PLATFORM

130 000
active clients globally

11. CONTACT INFORMATION

Email: helpdesk.za@ig.com
Helpdesk: +27 10 344 0053

12. RISK

Clients are encouraged to investigate the risk mitigation strategies in place before choosing a broker. Questions to ask when you assess a broker's credit include:
• Reputability of the broker? You should ensure that you choose a reputable, larger provider who is regulated. IG is a FTSE-listed company. Its financial statements are publically available in our 2014 Annual Report. In South Africa IG is regulated by the Financial Services Board (FSB) and is an Authorised Financial Services Provider, FSP number 41393.

• Which balance sheet risks are counterparties exposed to? SA residents trade with two different legal entities depending on if they are trading onshore or offshore. Both legal entities have significantly more capital than required by our regulatory bodies.

• Are there any legally binding guarantees in place? IG will consider providing guarantees if clients or institutions request them. Guarantees can be in the form of a Letter of Guarantee or a Bank Guarantee.

• Which mechanisms does the broker have in place to protect client money?
IG protects its clients' funds by holding individual clients' money in segregated accounts; in other words it does not re-hypothecate client funds for hedging purposes, which many brokers do.

Segregated client money is held entirely separately from IG's own money, ensuring that in the event of default by IG, client funds will be returned to the clients rather than being treated as a recoverable asset by general creditors of IG. The money is 'ring-fenced' in separate bank accounts that are held in trust with the clients as the beneficiaries, and is not mixed with IG's own funds. For domestic accounts, all money held on behalf of clients is held in a segregated trust account with Standard Bank.

IG's offshore accounts are held with IG Markets Ltd, a UK company authorised and regulated by the Financial Conduct Authority (FCA).

IG does not do any proprietary trading and clients trading offshore are protected under the Financial Services Compensation Scheme (FSCS) whereby cover is provided up to £50 000 per client.

• What happens if a broker goes into liquidation?
If IG goes into liquidation, clients whose funds were held in segregated accounts would have their share of the segregated money pool returned. If there was a shortfall then, depending on the circumstances, clients may be eligible for compensation from the Professional Indemnity and Fidelity cover held by IG South Africa. ■

editorial@finweek.co.za

THIS WEEK:

>>Small Business: Choose the right legal form of business p.40
>>Life: Online home-cleaning services p.42
>>Personal finance: The importance of prenups p.44

CEO INTERVIEW

By Jaco Visser

Localising international fame

Establishing two leading global takeaway brands in South Africa in short succession is taking its toll on Taste Holdings' short-term earnings. But doing it in the public domain, and taking lessons from rolling out Domino's Pizza, might boost future profit of one of the smaller listed brands companies on the JSE. *finweek* spoke to **CEO Carlo Gonzaga** about Domino's Pizza and the imminent arrival of Starbucks.

In a process that started in 2004, Taste Holdings convinced the world's largest pizza-delivery brand, Domino's Pizza, to grant it the rights to set up shop in SA as of October last year.

Taste, which already owned Scooter's Pizza and St Elmo's Pizza, decided to convert its existing branded pizza outlets to Domino's in a move that put pressure on its earnings, as was visible for the six months ended 31 August.

Nevertheless, the company managed to raise cash in two rights issues since September 2014 and successfully launched a corporate bond programme last year that allows it to borrow as much as R1bn in SA's illiquid corporate bond market. Investors are in for the long haul following the release of the company's latest results.

One of the main reasons Taste decided to approach Domino's is the potential of economies of scale from such a large operation, according to Carlo Gonzaga, CEO of Taste. "It makes sense to be part of a bigger brand," he says.

Taste decided to gradually convert its Scooter's and St Elmo's restaurants into Domino's Pizza outlets. A shortage of prime real estate is the main reason why the company isn't rolling out Domino's alongside its existing brands, according to Gonzaga. "We would get to 100 Domino's stores in a fraction of the time it would take if we had to start this business from scratch."

Sixty-three former Scooter's and St Elmo's have been rebranded to Domino's between October 2014 and the end of August this year, according to the company's latest interim results. Of these, the company holds 23 stores in a move to increase its corporate-owned outlets. On average, sales at rebranded stores are 60% higher than before the change, according to the results.

Converting and owning its own stores came with expensive lessons for Taste, though. The biggest of these was the lack of human capacity in its newly-converted outlets, Gonzaga says. The fast roll-out of Domino's and rapid ownership compounded the problem, according to him.

"Having a driving licence doesn't make you a good driver," he says with regard to the lack of skills the company experienced in its newly-owned outlets.

Operating costs at Taste jumped 115% to R213.5m for the six months through 31 August compared with the same period a year ago; sales for the six months increased by 62% to R490.3m, according to the interim results.

The company's after-tax loss for the period jumped 528% – driven by higher finance costs due to increased borrowings to fund the shop conversions – to R29.9m compared with a profit of R6.9m the previous year.

As part of the Domino's roll-out, the company built dough

Carlo Gonzaga,
CEO of Taste Holdings

WHICH BRANDS DOES TASTE HOLDINGS OWN?

- Scooters Pizza
- St Elmo's Woodfired Pizza
- Domino's Pizza
- Zebro's Chicken
- Maxi's
- The Fish & Chip Co
- Starbucks
- NWJ
- Arthur Kaplan
- World's Finest Watches

manufacturing plants in Midrand and Cape Town to supply outlets with consistently good-quality ingredients, Gonzaga says.

Having two plants limits the risk of supply disruption should something go wrong at either plant. In addition, producing dough offsite allows shop managers and owners to focus on making pizzas, he explains.

Amidst the Domino's conversion, Taste was granted a 25-year exclusive development agreement to start up Starbucks outlets in SA. The first store is planned to be opened in Gauteng during the first six months of 2016 and the company has identified an initial market of up to 150 outlets in SA.

Whereas internationally, Starbucks relies on the hurried public transport user in major developed cities, such as London, the local outlet will offer sit-down space for consumers. The stores will be between 100m² and 300m² in size, according to Gonzaga.

Gonzaga says Starbucks isn't quite like anything else in SA. "It's got a broad range of hot and cold beverages – all made in-store. It offers a [large selection] of food, but it isn't a restaurant."

In a sector where there are a lot of grab-and-go coffee outlets and "full-blown" sit-down restaurants, there is a need for an in-between market player, he explains. In addition, Taste will bank on the fact that Starbucks drives coffee consumption in the new markets that it enters, according to him.

Detractors have said that in order for Starbucks to open, other players would have to close, but this is not accurate, maintains Gonzaga.

The more mainstream offering of Starbucks's products in the market probably won't hurt bespoke coffee outlets, such as independently-owned coffee roasters, Gonzaga says.

"They will survive," he says. "There will always be a place for them."

Coffee consumption in SA is growing at about 4% per year and over the past five years around 1 000 coffee outlets opened in the country, according to him. Local consumers' taste for premium coffees is also on the rise, he says. "The timing now is probably better than it has ever been," Gonzaga says about the opportunity to bring the international brand to SA. "Five years ago I think it would have been a tougher call for us."

Amidst the Domino's conversion, Taste was granted a 25-year exclusive development agreement to start up Starbucks outlets in SA.

Sensitive to criticism about how expensive Starbucks' products would be, Gonzaga says that it is absurd to convert foreign prices into rand.

"We'll be pricing comparable products at the same price as other premium coffee offerings in the South African market," he says.

With SA's large drive-through takeaway culture, as is evident in the roll-out of 24-hour drive-through KFC and McDonald's outlets over the past couple of years, Taste is banking on Starbucks's US experience. In its home market about 40% of Starbucks outlets offer drive-through services, Gonzaga says.

"We're an enormous drive-through culture," he says. "If we really thought that Starbucks only works at a train station we definitely wouldn't have brought it here." ■

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GETTING TO KNOW CARLO GONZAGA

Q: What are you reading?

A: I recently read a book called *The Outsiders* by Will Thorndike – it's the best book I've read in the past year. I'm currently reading *The Everything Store: Jeff Bizos and the Age of Amazon* by Brad Stone.

Q: Where do you like to go on vacation?

A: I only travel for pleasure in Southern Africa. I camp a lot. My wife, kids and I all go camping together.

Q: What do you do to relax?

A: The best thing for relaxing for me is to be in the bush. And reading – I like reading books on Africa as well.

By Jaco Visser

Legalising your new business

When a small business is started, one of the main issues for the entrepreneur is to decide which legal form should house the new venture. In SA, there are four options. This week *finweek* speaks to lawyers at ENSafrica about three of them.

There are four general legal forms from which a new business must choose to be housed in. Namely: a sole proprietorship, a private company, a partnership (which will be discussed in next week's article) and a trust.

Each legal form has its own requirements in terms of setting up, and each also attracts different tax consequences. It is important for the entrepreneur to gauge the credit risk of the new venture. They must also decide whether or not they want the business to survive should they no longer be a part of it.

1. The private company

Setting up a company to house a business venture is the general route that many, if not most, entrepreneurs take. The relatively easy registration process makes it accessible to most start-ups. Following the implementation of SA's new Companies Act, implemented in 2011, and the subsequent doing away with close corporations, it is now easier than ever to set up a company. To ensure this registration process is done according to the letter of the law, it is still advisable to make use of an attorney to drive the process.

Brian Jennings
Senior associate at ENSafrica's corporate commercial department

Private companies are taxed at a flat rate of 28% of profits, after excluding some prohibited deductions such as donations that don't comply with article 18A of the tax law, life insurance and government grants.

"A private company carries two important features that lack in a sole proprietorship; namely perpetual succession and limited liability," according to Brian Jennings and Sanushka Chetty, both senior associates at ENSafrica's corporate commercial department.

Pro: Perpetual succession

A private company is a separate legal entity, capable of being sued and owning property in its own name, they explain. It is a juristic person which, largely, has the same rights as a natural person. As it is a legal person, it is capable of existing forever (perpetual succession). Therefore the life of the business is divorced entirely from the life of its various shareholders, they add.

Pro: Limited liability

This benefits the various shareholders in that they are granted limited liability in terms of the Companies Act of 2008, which was implemented in 2011. Basically, the shareholders are not liable by law for the debts of the private company in which they are shareholders, Jennings and Chetty say.

To use an example, if the private company takes out a loan of R100, but then experiences difficult economic conditions causing it to be unable to repay the loan, the creditor, or grantor of the loan, can only look to the private company to repay the loan. The creditor is not entitled by law to claim any shortfall from the private company's shareholders, according to them. This is a significant tool that enables entrepreneurs to take the risks needed to start and establish businesses, they say.

Private companies are taxed at a flat rate of **28%** of profits, after excluding some prohibited deductions.

Con: Set-up costs

Jennings and Chetty explain that set-up costs of a private company can range from being low and requiring standard documentation, to being very high when numerous shareholders are involved or there are specific items that need to be regulated between the parties. There is also an ongoing administration fee payable to the Companies and Intellectual Property Commission.

Con: Complicated framework

The major pitfall is, however, one of education, according to them. A private company is subject to numerous requirements and obligations set out in the Companies Act and non-compliance with these provisions can result in directors of the company concerned being personally liable, Jennings and Chetty say. In rare instances, criminal liability may be imposed. Therefore significant upskilling is required in order to properly function within the framework of the Companies Act, and benefit from its protections, according to them.

2. Sole proprietorship

Although this legal form for a venture is cheap and mostly uncomplicated, it does present a number of drawbacks.

Pro: No ongoing costs

"The benefits of being a sole proprietor is that nothing further is required in order for you to commence business, simply trading is enough," according to Jennings and Chetty. "This method of trading has no set-up costs and no ongoing administration costs."

Con: No legal separation

The risks involved in trading in your own name, however, outweigh the benefits.

"From a company law point of view, there is no separate legal divide between the assets of the business and the assets of the business owner," according to Jennings and Chetty.

As such, the life of the business is intrinsically linked to the life of the business owner and the business owner is exposed to the risks of the business in a personal capacity, they explain. If the business is sued by a customer or client, the personal assets of the business owner may be susceptible to being attached and sold in execution if the business assets are not sufficient to discharge the debt owed to a supplier, Jennings and Chetty say.

"From a tax perspective, a pitfall may be that all income received by the business would be taxable at the owner's respective marginal income tax rate," according to them.

Sanushka Chetty
Senior associate at ENSafrica's corporate commercial department

3. The trust

It is important to understand that a trust is not a separate legal entity *per se,* explain Jennings and Chetty. A trust is merely a pool of assets that is regulated separately on behalf of a trust's beneficiaries. If an entrepreneur chooses to house a business in a trust, they must understand that they are giving up control over management of the assets, which are vested in the trustees alone, they explain.

Typically the trust will consist of trustees, who manage the assets; income beneficiaries, who receive the income derived from the assets; and capital beneficiaries, who receive the assets when the trust vests, or dissolves.

Con: Registration may take long

Delays at the Master of the High Court's office – the office responsible for administering trusts in SA – may also be a relevant factor in setting up a trust to house a business venture, according to them.

Pro: Tax benefits

There may be tax benefits to setting up a trust, but this would depend on the type and nature of the trust and the tax regime at the particular time, they explain.

Pro: Better control

A commercial advantage is that the entrepreneur is able to regulate the trust's internal affairs as they desire, since the Trust Property Control Act is not overly prescriptive in this regard, according to them.

The tax rate for normal trusts in SA is a punitive 41% of profits. ■

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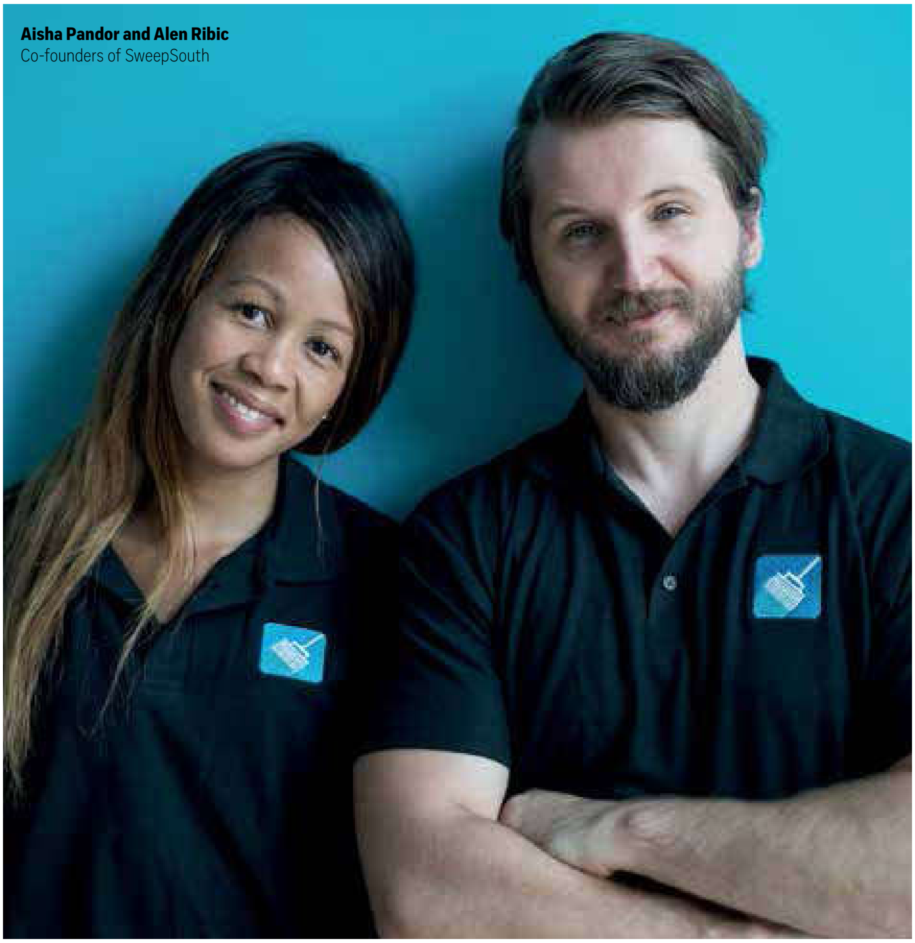
Each legal form has its own requirements in terms of setting up, and each also attracts different tax consequences. It is important for the entrepreneur to gauge the credit risk of the new venture.

Gallo Images/iStock

SA's Uber-style answer to professional home cleaning

Launched in 2014, SweepSouth uses an Uber-style online booking platform to place professional cleaners into homes and small businesses across SA – within minutes.

By Jessica Hubbard



Aisha Pandor and Alen Ribic
Co-founders of SweepSouth

Earlier this year, Silicon Valley-based venture capital fund and start-up accelerator, 500 Startups, unveiled its 14th group of start-ups, which included the innovative South African home cleaning service, SweepSouth.

It's the first time a local business has been selected (with only several African start-ups having ever been chosen). According to the accelerator, of thousands of applicants for each batch every year, only 2% are successful. The four-month accelerator programme provides start-ups with $125 000 (R1.67m at current exchange rates) in funding, as well as mentorship and networking opportunities.

In addition to being backed by 500 Startups and gaining international attention, SweepSouth also scooped the 2014 SiMODiSA Start-upSA pitch award, and has attracted major angel investment to date (Newtown Partners, with Pule Taukobong's Africa Angels Network (AAN) and Polo Leteka Radebe's Identity Development Fund (IDF)).

***FINWEEK* CAUGHT UP WITH AISHA PANDOR, CO-FOUNDER AND CEO OF SWEEPSOUTH, TO FIND OUT MORE ABOUT THE FAST-GROWING START-UP.**

FW: What was the inspiration behind SweepSouth?

My co-founder (and husband) Alen and I came up with the concept for SweepSouth out of a personal need and pain point. While on holiday in Cape Town during December, we struggled to find help with domestic cleaning. It took us weeks to search classifieds, ask friends for referrals, and go back and forth via email and phone with cleaners and agencies. Moreover, the cleaners we did speak to were underpaid and unmotivated.

Uber had recently launched in South Africa, and we loved the idea of an "Uber for home cleaning", which also used the technology to provide work opportunities for cleaners. We were excited about the idea of modernising the industry and empowering cleaners to earn fair rates and decide on their own schedules.

> In addition to being backed by 500 Startups and gaining international attention, SweepSouth also scooped the 2014 SiMODiSA Start-upSA pitch award, and has attracted major angel investment.

FW: How does your rating and matching algorithm work?

It takes both cleaner and client ratings into account and looks at a number of additional factors when deciding on a match. It then "learns" cleaner and client preferences over time, improving the ability to match.

FW: What were some of your early challenges?

Finding customers. We were first-of-a-kind and potential customers wouldn't know we existed, let

alone where/how to find us. We relied on word-of-mouth in the early months (which only works if you provide a great service). We're also continuously streamlining our processes, as we didn't realise early on how operationally intensive it would be to run the platform successfully.

FW: Is SA abreast of the global move toward the 'sharing economy' and service-based businesses?
Not yet. While Uber has done well in SA in terms of its growth over the past two years, other aspects have been slower to gain widespread acceptance. For example, Airbnb hasn't been embraced to the same degree in SA. I think many South Africans also don't yet see the benefits of the sharing economy, such as being more efficient with resources, and maximising income. It may seem only about the technology. More understanding comes with further exposure and education to this new way of thinking.

FW: What are the biggest obstacles for local start-ups trying to gain global traction?
Raising growth capital locally and at fair terms is difficult in SA. Global expansion is capital-intensive in most cases, and international competitors may have the advantage of being able to raise more and move faster. It's also important to have networks in areas you want to expand into, to ensure you are aligned with the local ecosystem.

FW: What does the 500 Startups coup mean for SweepSouth and its growth prospects?
It gives us access to global networks and some of the best international minds on various subjects relating to start-ups. It's also an international accolade. Furthermore, it comes with funding and potential access to further funding once the programme is complete.

FW: What are some of the key lessons you have learnt as an entrepreneur?
The importance of focus, fast execution coupled with constant analysis, and the importance of having a great team.

FW: Any advice for aspiring entrepreneurs looking for an opportunity/unique angle to start a business?
Get into the mindset of thinking of problems in your daily life as potential opportunities; soon pain points in your life can birth great business ideas. The key is not to build a solution and then look for the problem that it solves. ■
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A 'next-level' cleaning app

By Jana Jacobs

In May, online cleaning service, Domestly, launched. Domestly, founded by Berno Potgieter (CEO) and Thatoyaona Marumo (COO), currently operates in Cape Town.

With SweepSouth already in operation since June 2014, Marumo explained what the motivation behind Domestly's entrance to the market was.

"SweepSouth identified a gap in the market, proving that customers are willing to use tech to obtain a cleaner. They seized the opportunity," says Marumo.

But what makes Domestly different to SweepSouth is the way its solution is packaged, explains Marumo. "SweepSouth set up a solid foundation that we wanted to take to the next level," he says. Where SweepSouth is a service platform, Domestly operates as a marketplace that focuses on both the customers and the cleaners.

As opposed to an anonymous service whereby a cleaner is dispatched to the customer at a fixed hourly rate, Domestly's cleaners set their own rates and their profiles are visible to potential customers.

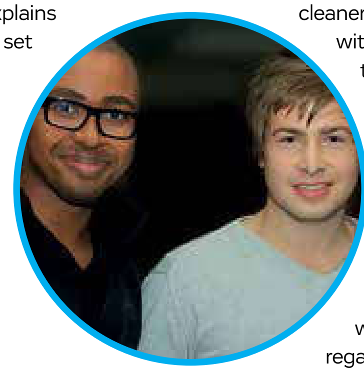
When a customer is looking for a cleaner, they can access the site and select particular cleaning criteria. Once they have specified these, suitable cleaner profiles become available. Customers can then select a cleaner that suits their needs and budget.

Domestly's vision is clear: "The motivation is to empower cleaners and give them the ability to value themselves, at their own rates and see themselves as any other professional service," says Marumo.

"Currently there are about **45** cleaners 'ready to go' and over **50** in process."

Cleaners take home the full rate that they charge and Domestly generates revenue "by charging the customer a marginal admin fee". In an extremely price-sensitive market, this is smart business and ensures Domestly will remain competitive.

All of this is done via an app. "We have invested a lot in this app. It is very particular and includes, amongst other features, calendar functionality so that cleaners can manage their schedules easily." Domestly cleaners have been outfitted with smartphones so that they can utilise the app and operate on a network that allows Domestly management and cleaners to communicate for free. "Cleaners can then also network with one another regarding clients and experiences," he adds.



Thatoyaona Marumo (COO) and Berno Potgieter (CEO)
Co-founders of Domestly

In keeping with professional excellence, cleaners go through a stringent vetting process. "Currently there are about 45 cleaners 'ready to go' and over 50 in process," he says.

Expansion is definitely on the horizon. Once Domestly has gone through the "teething process" in Cape Town, it will be moving on to Johannesburg and then Durban. With the passion behind Domestly's vision, these cities may just be the beginning. ■
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By Justine Olivier

Marriage: For love or money

Divorce globally has skyrocketed, with an average of 55% to 60% of marriages worldwide ending in divorce, says the United Nations' Statistics Division, making it increasingly important to protect your finances from divorce.

No one enters marriage expecting divorce. Unfortunately, things don't always work out the way we expect them to. How do you protect your savings and your financial future from divorce? You can do this before you get married by signing a prenuptial (prenup) agreement. Also known as an antenuptial or premarital agreement, the contract sets out terms and conditions protecting spouses should the marriage dissolve.

Tertius Bossert, head of FNB Law on Call, explains that it is advisable to sign a prenup as it protects both spouses from each other's creditors. "It is specifically useful if one spouse owns their own business and is therefore more at risk of having creditors take legal action against them for business-related debts," he says.

Entering into a prenup is a personal choice, isn't compulsory, nor should you be forced into it. Says Clive Hill, legal adviser at Sanlam Trust: "The accrual system [see box alongside] was designed to recognise the different and unique contributions each one makes to the marriage. As such, it is a fair system. However, each person intending to get married should consider their position and take independent legal and financial planning advice."

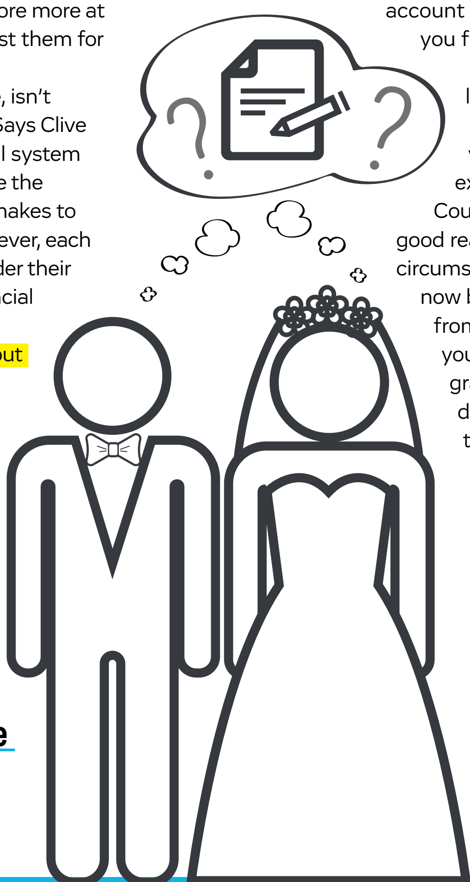
But what do you do if you want a prenup put in place, yet your future spouse does not?

Unless your assets are held in a separate legal entity, such as a trust, you will have no protection, says Michelle Dubois, legal marketing specialist at Liberty. "Trust is an important part of financial security in any partnership, and marriage is exactly that: a partnership. Discuss your concerns about signing [a prenup] and rather address them before putting yourself at risk," she explains.

Michelle Dubois
Legal marketing specialist at Liberty

What you need to remember, though, is that a trust will only protect the growth in your assets, not their original value.

This is why it is so important for future spouses to talk about their financial issues and perspectives. Says Dubois: "It is equally important to retain your own bank account and credit record. If you do not have your own bank account, and your spouse passes away, their account will be frozen, creating a difficult situation for you financially."



Entering into a prenup should not be taken lightly. It requires serious consideration and thought, as it is extremely difficult to change your marriage contract after the wedding. Hill explains that you would have to apply to the High Court, which is an expensive exercise, and show good reason why it should grant your request. If your circumstances change during marriage (i.e. one spouse now becomes a stay-at-home parent) or you separate from your spouse without getting divorced, and if you can prove a need, the maintenance court can grant you monthly maintenance. Should you get divorced, the settlement agreement will determine the maintenance, if any.

Already married and haven't got a prenup in place? No problem – you are allowed to change a community of property to a prenup. It will, however, cost you a fair amount of money and you will have to inform your creditors in case there are any objections.

Don't underestimate the importance of having this contract in place. It is not just a piece of paper to be signed prior to marriage, but involves serious consideration as it is a legal instrument that will have lasting consequences upon dissolving of the marriage and/or death of your spouse. ■

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Entering into a prenup is a personal choice, isn't compulsory, nor should you be forced into it.

WHY A JOINT BANK ACCOUNT IS A NO

Shreekanth Sing, legal advisor, legal technical support at PSG Wealth, advises:

It is extremely difficult to establish ownership of items paid for through a joint bank account. This becomes especially problematic where judgement is obtained against one of the spouses and the assets of said spouse are being attached and sold in execution.

In dealing with monies once they get married, couples should consult with each other on all major financial decisions (e.g. purchasing a new home), and should work together when drawing up a joint budget for household and other expenses. In respect of certain financial decisions, couples should also obtain advice; a financial adviser can be consulted to assist them in such a case.

ACCRUAL SYSTEM

Clive Hill, legal adviser at Sanlam Trust, explains the different types of prenups available.

1.) With accrual

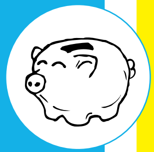
■ The calculation of the accrual is done only on death or divorce. During your marriage you have the freedom to deal with your own assets.

■ Unless you insert other clauses, all your pre-marriage assets will be excluded from the accrual calculation, provided you declare their value. You should keep detailed records of these assets. However, if you wish, you can include such assets in the accrual system. It's up to you. If you want to exclude them, you need to declare their market value as at date of marriage, or make this declaration within six months after you get married. Otherwise they will be automatically included.

2.) Excluding accrual

■ Everything you owned prior to the marriage and everything you accumulate during the marriage, belongs only to you. Each spouse remains responsible for their own debt.

DON'T DIVORCE YOUR SAVINGS



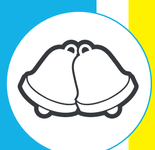
What happens to your finances, particularly your retirement savings, when you start divorce proceedings?

Says Clive Hill, legal adviser at Sanlam Trust: "Depending on the type of matrimonial contract you signed when you got married, you might be compelled to divide your pension interest – and in some instances even your pre-retirement savings – equally between you and your ex-spouse."

Although a non-member spouse has a right to claim a portion of the member spouse's retirement benefits, this is not always the case.

PSG Wealth's Magdaleen Cornelissen, (financial adviser) and Shreekanth Sing (legal adviser) explain that if spouses specifically excluded retirement benefits in the prenup or if they were married out of community of property excluding the accrual system, then the retirement benefits would not form part of the estate.

WHAT TO DO BEFORE THE WEDDING BELLS RING



"Your strategy should really start prior to your getting married. So if you are not yet married, take professional advice regarding an appropriate marriage contract well before the wedding day. If you get married in community of property, you can't protect your retirement savings. If you get married out of community but *with* the accrual system, you could agree upfront to exclude all current and future retirement fund savings from the accrual system," says Hill.

"And, if you didn't do so, as a practical strategy upon divorce, you could try to negotiate to transfer *other assets* instead of your pension interest, or pay a higher monthly maintenance as compensation for leaving your retirement assets alone."

Let's see if you've been paying attention to the news! As usual, we've included some general knowledge questions to keep you on your toes. To find out the answers, keep an eye on our new website www.fin24.com/finweek.

1 Of which university is Adam Habib the vice-chancellor and principal?
- Wits University
- Rhodes University
- University of Fort Hare

2 In the energy sector, what does IPP stand for? Supply the missing word:
__________ Power Producer

3 **True or false?** Skyward is a low-cost airline operating in South Africa.

4 Who is Craig Joubert?
- The CEO of PSG Group
- A referee in the Rugby World Cup
- The vice-chancellor of Stellenbosch University

5 To which political party does former Northern Cape chairperson John Block belong?

6 **True or false?** The city of Aleppo is situated in Afghanistan.

7 Select the capital of Canada:
- Ottawa
- Vancouver
- Michigan

8 What colour is a sapphire?

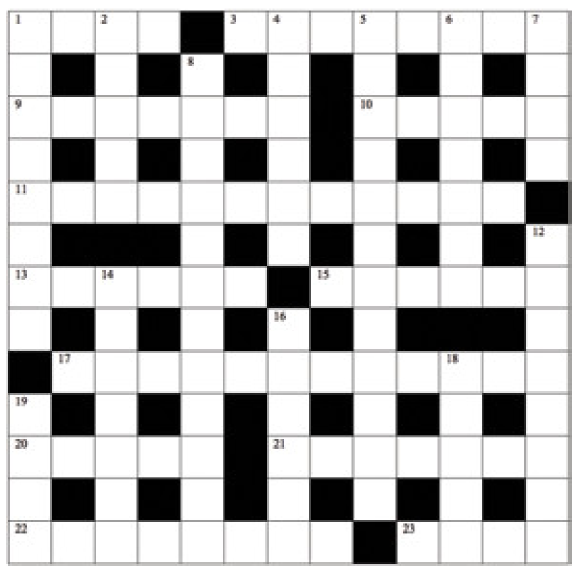
9 **True or false?** Airbus is a British company.

10 **True or false?** Last week's cover story was on the SA agricultural sector.

CRYPTIC CROSSWORD 605 JD

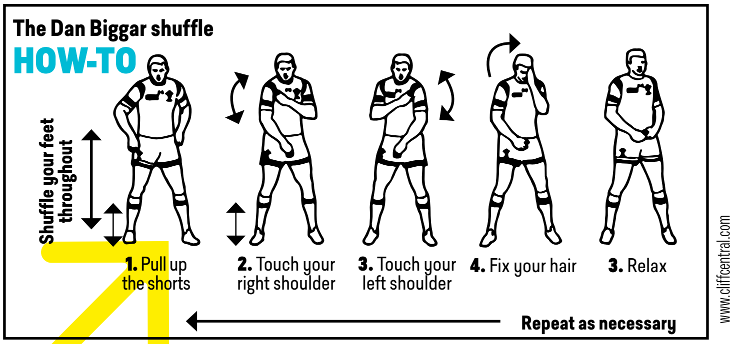
ACROSS
1 Greeting one left out of the circle (4)
3 Davy Jones's locker or his bunk? (5,3)
9 Put down is smoother around first landing place (7)
10 Back pounds to have been spent (5)
11 Have centimes for exchange charges (12)
13 That's queer – compiler admits to having dual personality (6)
15 Do shake rapidly (6)
17 VIP Commons festivities (12)
20 Money is low indeed (5)
21 Illegal voter's insurance policy (7)
22 Scrooge attending Baptist chapel? (8)
23 Born and died in poverty (4)

DOWN
1 Latin American man's state (8)
2 Starts to learn to be quiet next to deer (5)
4 Trust float backed by the Spanish (6)
5 This is the longest single word to be seen, strangely enough (12)
6 Puffed-up balloon writer (7)
7 Row at English banquet (4)
8 Tenacious measure for sticky requirement (8,4)
12 Subconscious impulse inhibiting memoirs by editor being edited (8)
14 Bring forward rule to exclude dodgy trade (7)
16 Small amount of dessert (6)
18 Tower above a church is out of left field (5)
19 Poet takes different direction for French girlfriend (4)



Solution to Crossword NO 604 JD
ACROSS: 4 Airport; 8 Acacia; 9 Adverse; 10 Nerine; 11 Gramme; 12 Billable; 18 Watchman; 20 Corral; 21 Blonde; 22 Absolve; 23 Litter; 24 In there
DOWN: 1 Wannabe; 2 Patrols; 3 Vienna; 5 Indigent; 6 Prewar; 7 Resume; 13 Bowl over; 14 Emanate; 15 In tears; 16 Bonbon; 17 Brooch; 19 Calcic

On margin



The Dan Biggar shuffle

One of the highlights of the Rugby World Cup has been Welsh flyhalf Dan Biggar's bizarre goal-kicking ritual, dubbed the Biggarena. Above is a simple guide for admirers of Biggar who want to practise the moves at home.

Why did God invent whisky?

So that the Irish would never rule the world.

Consolation prize

And the Lord said unto John, "Come forth and you will receive eternal life."

But John came fifth, and won a toaster.

Divine interventions

Spare a thought for Edgar Lungu, Zambia's president, who has run out of solutions to try and solve the country's economic problems.

Zambia's currency, the kwacha, has fallen 45% against the dollar this year, earning it the dubious honour of worst performer of 155 currencies tracked by Bloomberg. Mainly a copper exporter, the country has been hit by falling copper prices, while falling water levels at hydropower plants triggered the most severe electricity shortage on record, Bloomberg reported.

For Lungu, there was only one solution: he declared a national day of devotion and fasting on 18 October, ordering all bars, nightclubs and entertainment venues to close. The Football Association of Zambia followed suit, cancelling all domestic games.

Whether the nation's prayers will be answered remains to be seen. Trevor Simumba, managing director at sub-Saharan Consulting Group Zambia, was sceptical in his comments to Bloomberg: "No matter how many prayers you make it doesn't change the fact that you have a fiscal deficit and you're not doing anything to reduce that fiscal deficit. We know God can do miracles, but He cannot change things that are facts on the ground."

"I guess I can put that down as a 'No' from Johnson."

Verbatim

Ali Macdonald @Ali_Macdonald
@policescotland I'd like to report a crime please, I've just witnessed a South African rob 15 Scots at Twickenham. #Joubert #RWC

Peter de Villiers* @Coachdivvy
If we win the Rugby World Cup, does that mean that Japan is actually the winner?

Elizabeth Windsor* @Queen_UK
Wasn't really expecting the Chinese, to be honest. Thought Cameron said "Do you want a gin over" not "Do you want Jinping over". Awkward.

GimmeSomeRugby @ComradeTasha
Students at Rhodes and UCT want the fees to be reduced to a figure that Jacob Zuma can read.

Tom Eaton @TomEatonSA
Parties trying to score political points off student protests are ticks on a lion arguing over who's got the better sucking technique.

Spotted on a placard at the protests about student fees at UCT:

"The trouble with the rat race is that even if you win, you're still a rat." – Lily Tomlin, American actress, comedian, writer, singer and producer (1939 -)

**Parody accounts*